INA Corporation/Annual Report 1979

INA Corporation is among the nation's oldest commercial organizations. Its history dates back to 1792, with the formation of its principal subsidiary and the nation's first stock insurance company, Insurance Company of North America. Today, INA operates in approximately 145 countries, offering varied products and services in property-casualty insurance, life and group insurance, health care, and investment management.

The Cover:
A view into the board room at the headquarters of INA Corporation in Philadelphia.

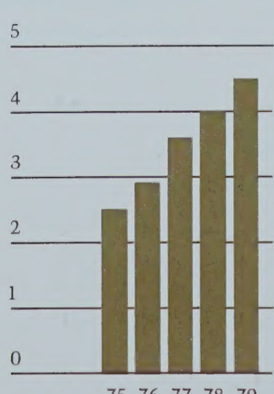
Table of Contents

Financial Highlights

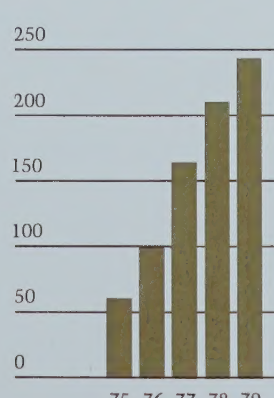
(Dollars in millions, except per share data)	Years Ended December 31 1979	1978[1]	Change
Revenues	**$4,551**	$4,025	13%
Net operating income	**245**	212	16
Realized securities gains net of income taxes	**17**	2	750
Net income	**262**	214	22
Total assets	**8,987**	8,036	12
Shareholders' equity	**1,526**	1,327	15
Per Common Share [2]			
Primary:			
Net operating income	**$6.34**	$5.58	14%
Realized securities gains net of income taxes	**.44**	.06	633
Net income	**6.78**	5.64	20
Fully diluted:			
Net operating income	**6.13**	5.39	14
Realized securities gains net of income taxes	**.42**	.06	600
Net income	**6.55**	5.45	20
Dividends declared	**2.05**	1.73	18
Shareholders' equity	**39.60**	34.71	14
Other Data			
Return on equity	**17.1%**	17.0%	
Employees	**35,280**	33,987	
Average common shares and common share equivalents outstanding [2]	**38,579,370**	37,888,500	

(1) Reclassified to reflect investment banking operations on the equity basis of accounting.
(2) After effect of 3-for-2 stock split.

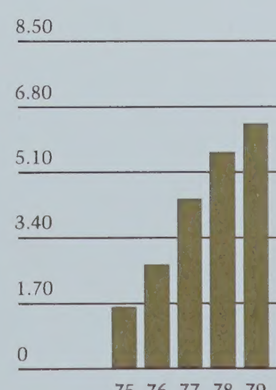
Revenues
(in $ Billions)



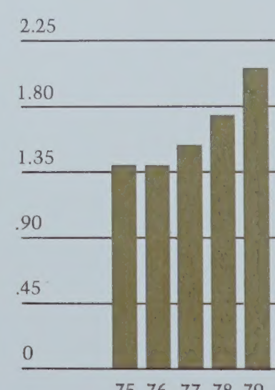
Net Operating Income
(in $ Millions)



Net Operating Income
($ Per Share)



Dividends Declared
($ Per Share)



To Our Shareholders:

I am pleased to report that in 1979 INA Corporation earnings and revenues reached new highs for the third consecutive year.

These results bear directly on the principal strategies which have guided a five-year rebuilding effort. During this period, we have sought to position the Corporation for sustained growth through more balanced earnings sources both within and outside property-casualty insurance—our principal business.

In the Property-Casualty Group, growing diversity in products and services, together with improved management of all elements of the business, enabled us to withstand unprecedented catastrophe losses and the impact of higher inflation and soft markets.

Pre-tax income of the Property-Casualty Group exceeded 1978, notwithstanding a series of natural disasters which produced the highest claims in our history. This performance in a deteriorating industry environment reflects higher investment income, as well as conservative reserving, limited risk retentions, disciplined pricing, and aggressive marketing in selected areas. On an after-tax basis, property-casualty results were up 15% over the prior year.

During 1979, we further expanded property-casualty products and services to provide a broader market for agents and brokers. We expanded in areas such as petrochemical coverages and professional liability, and strengthened our services to meet the more demanding requirements of corporate risk management.

During the past two years, we have positioned our property-casualty operations to handle the full scope of risks for corporations and institutions, regardless of size or complexity. INA's selection as the lead insurance underwriter for the 1980 Winter Olympics, a large-scale and difficult risk, exemplifies this capability.

The Life and Health Care Groups, our other business sectors, increased their earnings substantially. This growth took up the slack produced by negative pressures on property-casualty operations.

In the Life Group, pre-tax income grew 19%. The companies of this segment enhanced their positions as leading providers of life and specialty group coverages for businesses, professional societies, trade associations, and other groups.

In the Health Care Group, pre-tax income was up 48%, as we experienced accelerated growth both domestically and internationally. In the United States, we expanded by acquiring two hospitals, beginning construction of two others, expanding five existing facilities, signing 20 new management agreements, and expanding our prepaid health care plan operations. Internationally, we acquired hospital interests and secured management agreements in the United Kingdom, the Middle East, the Far East, and Australia.

We further expanded our international insurance operations in 1979. We added operations in Chile, Denmark, Ireland, Greece, and the Caribbean, and initiated steps to enter Switzerland and the Ivory Coast. INA's international assets now exceed $1.2 billion.

Early in 1980, we formed a new Investment Group with responsibility for all facets of the Corporation's investment activities, including management of our insurance portfolios, outside portfolio services, real estate holdings, various minority equity interests, and special investments. The Investment Group also has responsibility for our operations in home building and related mortgage banking.

The formation of this new operating group provides a concentrated focus on the increasingly important investment aspect of our business. It is an area in which we believe there are significant opportunities as the nation's need for investment capital grows. At the same time, because of the hazards in the present investment environment, it is an area requiring unusual flexibility and vision.

During 1979, we merged Blyth Eastman Dillon & Co. Incorporated into Paine Webber Incorporated in return for an approximate 22% ownership of the combined firm. We view the merger as an enhancement of the long-term value of INA's investment in the securities industry.

In March 1979, the board of directors declared a 15% increase in the dividend on our common stock. In December, the board authorized an additional increase of 10%, together with a 3-for-2 split of our common shares.

The Corporation's return on equity in 1979 was 17.1%, exceeding our continuing objective of 15%. We strengthened our balance sheet by reducing our liabilities-to-capital ratio.

INA's earnings during 1979 also benefited from shifting investments into tax-exempt and foreign securities. These actions lowered domestic taxes and permitted the use of accumulated foreign tax credits.

While 1979 was a good year for INA, we began 1980 with a number of adverse forces influencing our markets and the economy.

Industry-wide results in the property-casualty field during 1979 evidence the beginning of a downturn in the underwriting cycle. The primary problem in the property-casualty business is the inability to pass through inflation-impacted claims costs because of regulatory restraints and intense price competition. We can expect the latter to persist until the supply of industry capital is withdrawn or reduced by inflation and underwriting losses.

INA's performance in 1979 gives us considerable assurance that we are now better equipped to deal with the underwriting cycle and to manage our businesses. However, we remain apprehensive about the uncertainties in the economy, and alert to the need to control costs and monitor exposures.

In summary, INA has completed four consecutive years of earnings improvement and three consecutive years of record earnings. It should be noted, however, that this positive trend began at an historic bottom of the underwriting cycle and proceeded through a period of prosperity for the entire industry. Thus, the major tests lie ahead.

The progress of 1976-79 has reinforced our confidence in our underlying strategies, but the job of repositioning INA is by no means complete.

During 1979, a management task force reevaluated our objectives and strategies. The outcome of this review was a determination to concentrate on continued growth and diversification within our existing insurance, health care, and investment management businesses. This process also sharpened our priorities and clarified the steps needed to capitalize on the opportunities in these businesses.

We begin the new decade with confidence, building on a foundation of 188 years' experience and a current record of strong earnings performance. The year 1980 will be a time for strengthening our competitive position and realizing the earnings potential of our principal businesses.

I want to thank our employees for their efforts and reaffirm to our shareholders our continuing commitment to improve the value of your investment in INA Corporation.

Sincerely,

Ralph S. Saul

Ralph S. Saul
Chairman and
Chief Executive Officer

INA in Perspective

Businesses

INA Corporation's principal businesses are in property-casualty insurance, life and group insurance, health care, and investment management.

The primary operations of the property-casualty and life and group insurance units are in commercial products and related services, although both offer a complete spectrum of coverages in their markets.

The Property-Casualty Group in 1979 generated 66% of INA's consolidated revenues and 69% of consolidated pre-tax operating earnings. This business is conducted primarily through Insurance Company of North America, founded in 1792 as America's first stock insurance company, and subsidiaries and affiliates which are major factors in the worldwide commercial insurance market.

The Life Group in 1979 produced 18% of consolidated revenues and 22% of consolidated pre-tax operating income. INA's life insurance business began in 1957 and over the past decade its premium revenues have grown at a 23% annual compound rate, compared with 9% growth for the overall field. The life and group business is conducted principally by Life Insurance Company of North America, INA Life Insurance Company, Investors Life Insurance Company of North America, and the Horace Mann companies.

The Health Care Group in 1979 accounted for 12% of consolidated revenues and 14% of consolidated pre-tax operating income.

INA entered the health care field in 1969. Its operations in this area include hospital management and ownership through Hospital Affiliates, Inc., prepaid health care through INA Healthplan, Inc., and rehabilitation services through International Rehabilitation Associates, Inc.

Parent company activities and other operations in 1979 generated 4% of consolidated revenues and incurred a 5% pre-tax loss.

Financial Results

Consolidated revenues in 1979 were $4.55 billion, an increase of 13% over the $4.03 billion of 1978.

INA's consolidated annual revenues since 1975 grew at an annual compound rate of 16%. Annual compound revenue growth rates since 1975 for the principal businesses are 15% for property-casualty insurance, 18% for life and group insurance, and 30% for health care.

Net operating income in 1979 reached $244.6 million, up 16% from the $211.4 million in 1978. Over the 1975-79 period, INA's operating income after taxes increased at a 41% annual compound growth rate.

The Property-Casualty Group's pre-tax income in 1979 was $213.4 million, compared with $209.3 million in 1978. Property-casualty's pre-tax profits have increased consistently and substantially since 1975, when a loss of $2 million was incurred.

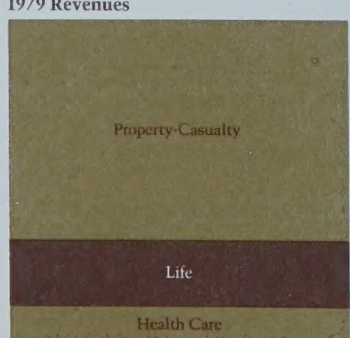
The Life Group's pre-tax income in 1979 rose 19% to $67.1 million, compared with $56.2 million in 1978. The group's annual compound growth rate since 1975 is 28%.

The Health Care Group recorded pre-tax income of $41.6 million, up 48% from the $28.1 million of the prior year. The annual compound growth rate for health care since 1975 is 45%.

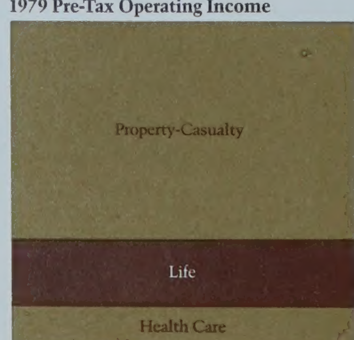
Pre-tax investment income in 1979 grew 27% to $450.4 million, compared with $353.4 million in 1978. This includes

Sources of Revenues and Income

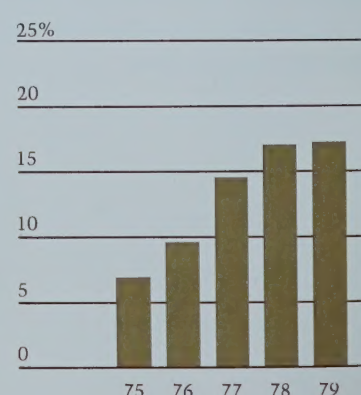
1979 Revenues



1979 Pre-Tax Operating Income



Return on Equity



During 1979, a series of presentations highlighted INA as a single, comprehensive market able to handle the complete range of risk and insurance service requirements for businesses, the professions, and individuals.

income of the insurance portfolios, which is also reflected in the results of the insurance operations.

Pre-tax income of other operations in 1979 was $5.6 million, versus $16.8 million in 1978, reflecting primarily earnings of home building and losses of Blyth Eastman Dillon & Co. Incorporated.

Merged Operations

During 1979, Blyth Eastman Dillon & Co. Incorporated, the Corporation's investment banking and securities subsidiary, was merged into Paine Webber Incorporated. As a result of the merger, INA holds an investment in Paine Webber representing approximately 22% of the equity of that firm. The Blyth Eastman Dillon operation incurred an $8.2 million after-tax loss for the Corporation in 1979. Previous years' financial data in this report have been reclassified to reflect Blyth Eastman Dillon on the equity basis of accounting.

Stock Split

In December 1979, the board of directors declared a 3-for-2 split in INA's common stock. All per share figures in this report are based on shares outstanding after the split.

Net Operating Income Per Share

Net operating income per share in 1979 was $6.34, up 14% compared with the $5.58 of 1978. Since 1975, INA's per share earnings have grown at an annual compound rate of 40%.

Dividends Per Share

Dividends paid per common share in 1979 totaled $1.93, an increase of 15% over 1978's $1.68 per share. INA has paid regular dividends to shareholders since 1874.

In March 1979, the board of directors declared a 15% increase in the quarterly dividend rate. An additional 10% increase was declared in December 1979, payable in the first quarter of 1980.

Return on Equity

Return on equity (net operating income as a percentage of mean shareholders' equity) was 17.1% in 1979. This was approximately equal to the 1978 level and exceeded for the second consecutive year the Corporation's objective of a 15% return on equity. Improved earnings are the primary factor in the enhanced return on equity in 1979 and previous years.

Shareholders' Equity

Shareholders' equity at year-end 1979 was $1.5 billion, a $199 million increase over the year-end 1978 level. This 1979 year-end equity is equivalent to $39.60 per share. The increase in book value resulted largely from improved operating earnings.

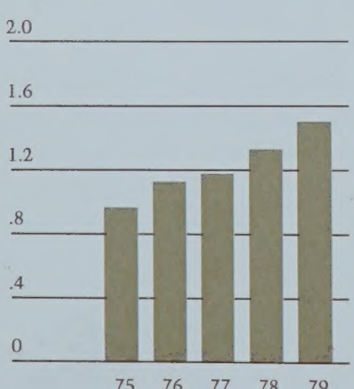
Assets

Consolidated assets, reclassified to reflect the merger of Blyth Eastman Dillon, reached $9 billion in 1979, a 12% increase from the $8 billion in 1978. The compound growth rate in assets since 1975 has been 19%. This reflects broadly based growth in the operations and investments of the Corporation.

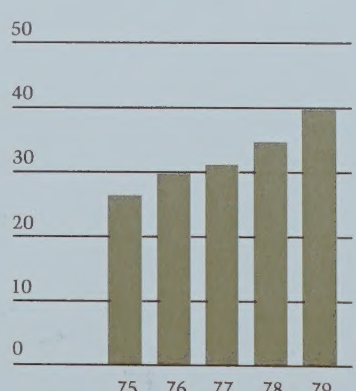
Capital Employed

In 1979, total capital employed, consisting of shareholders' equity and long-term debt, increased 13% to $1.9 billion. Net long-term borrowings totaled $22.1 million in 1979, reflecting primarily debt incurred by Hospital Affiliates, Inc. to expand its operations.

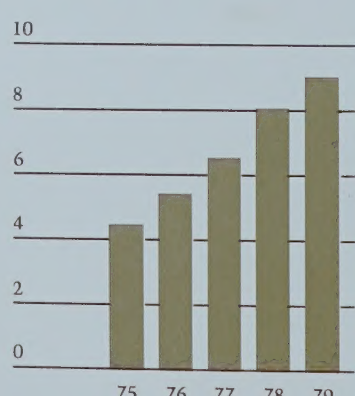
Shareholders' Equity
(in $ Billions)



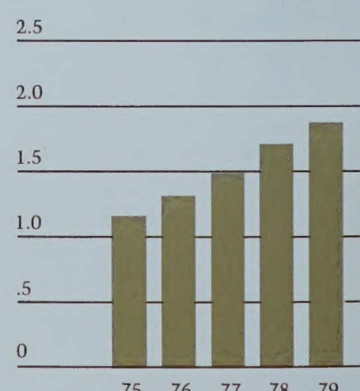
Shareholders' Equity
($ Per Share)



Assets
(in $ Billions)



Capital Employed
(in $ Billions)



Property-Casualty Group

INA provides loss control consulting as well as insurance coverage and risk management services for many of the nation's most complex industries.

Property-casualty insurance was INA's first business and continues today as its largest activity. The domestic property-casualty industry consists of approximately 2,900 firms which generated an estimated premium volume of $90 billion in 1979.

The Property-Casualty Group in 1979 recorded pre-tax income of $213.4 million, compared with $209.3 million in 1978, as a sharp increase in investment income offset higher underwriting losses.

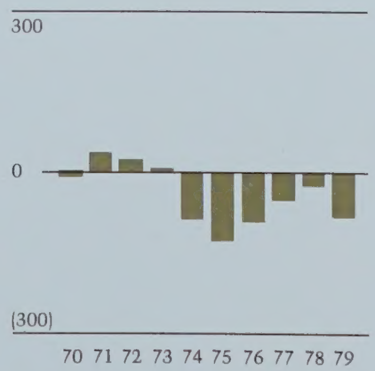
After taxes, property-casualty operating income was $185.2 million, a 15% increase over 1978. This resulted from actions taken earlier to add to the investment portfolio tax-exempt securities and foreign securities that made possible the use of foreign tax credits.

Written premiums reached $2.78 billion, 9% above the $2.55 billion of 1978.

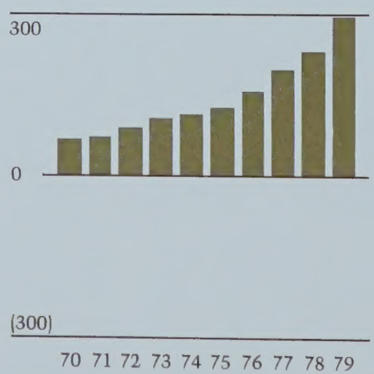
Underwriting losses in 1978 were $84.8 million, versus $20.8 million in the prior year. The increased losses were generated primarily by an unprecedented series of disasters, including hurricanes David and Frederic, severe winter storms in the East and Midwest, tornados that devastated the Wichita Falls, Texas area, and the breakdown of the nuclear reactor on Three Mile Island near Harrisburg. Internationally, catastrophe losses were incurred from civil disturbances in Liberia and Nicaragua, and a major industrial fire in Germany. As a result, incurred losses from catastrophic incidents in 1979 exceeded $70 million, compared with approximately $20 million in 1978.

Investment income rose 30% to $297.4 million in 1979, compared with $229.1 million in 1978. Increased cash flow to the portfolio together with higher yields on securities produced these gains.

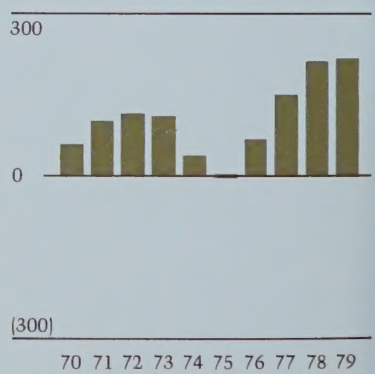
Property-Casualty
Underwriting Profit (Loss)
(in $ Millions)



Property-Casualty
Investment Income
(in $ Millions)



Property-Casualty
Pre-Tax Income
(in $ Millions)



The combined ratio (the combination of the ratio of claims and claims expenses to earned premiums and the ratio of underwriting expenses to written premiums) before policyholders' dividends was 101.8% in 1979, against 99.8% in 1978.

Loss Reserves

Property-casualty reserves for losses and loss adjustment expenses totaled $2.9 billion at year-end 1979, an increase of $392 million or 15% from year-end 1978. Over the 1975-79 period, reserves increased at an 18% compound annual rate. In both 1979 and the 1975-79 period, reserves grew more rapidly than earned premiums. Year-end reserves for losses and adjustment expenses as a percentage of earned premiums rose to 111% in 1979, from 105% in 1978 and 96% in 1975.

Property-Casualty Surplus

INA's year-end ratio of premiums-written-to-statutory-surplus declined to 3.0-to-1 in 1979, from 3.5-to-1 in 1978 and 4.5-to-1 in 1975. Common stock investments were maintained at conservative levels to minimize the impact of stock market fluctuations upon property-casualty surplus. At year-end 1979, common stocks in the investment portfolio equaled 46% of statutory surplus, compared with 55% at year-end 1978 and 128% at the end of 1975.

Commercial Lines Results

Commercial lines account for 80% of INA's property-casualty written premiums, although the company offers a full range of individual products and services as well. Commercial lines tend to be less highly regulated than personal lines.

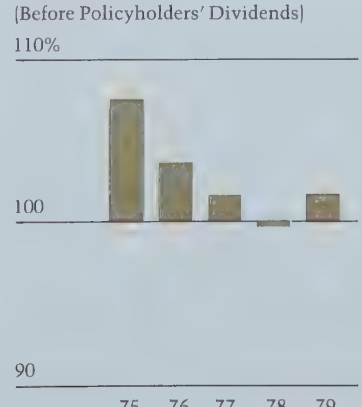
Commercial lines written premiums in 1979 grew 11%, with the annual compound growth rate over the 1975-79 period being 16%. The commercial lines in 1979 had an underwriting loss of $76.9 million, versus a loss of $25.8 million in 1978, primarily reflecting higher catastrophe losses.

Commercial casualty insurance, which protects businesses and institutions against liability losses arising from injuries to third parties, is the largest single line in property-casualty and accounts for 30% of premiums written. Premium growth in this area in 1979 was 11%, reflecting gains in workers' compensation coverages and new business generated by an expansion of products and services in general liability areas. The annual compound growth rate in casualty lines since 1975 is 20%.

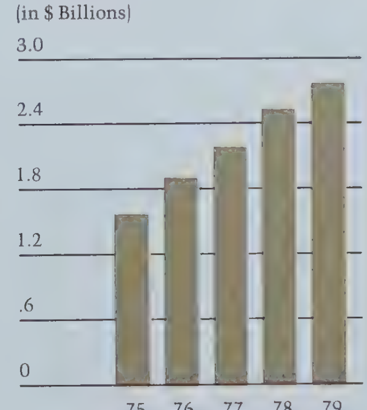
INA continues to establish the loss reserves of casualty lines considering trends in inflation, increased lawsuits, and higher settlement costs. The commercial casualty area in 1979 had an underwriting loss of $71.3 million, versus $57.7 million in 1978, reflecting the increased provision for reserves as well as inflationary pressures.

Commercial property insurance, a large and long-established business for INA, accounts for 27% of premiums written. The principal component of this line is commercial packages, which combine in a single policy both property and casualty coverages. This line's written premiums grew 15% in 1979, and had an annual compound growth rate of 17% over 1975-79. The catastrophe losses of 1979 reduced the commercial property line's underwriting profit to $4.1 million, compared with an underwriting profit of $48.4 million in 1978.

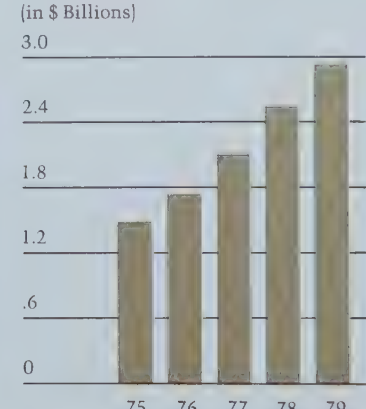
Property-Casualty Combined Ratio
(Before Policyholders' Dividends)



Property-Casualty Written Premiums
(in $ Billions)



Property-Casualty Loss Reserves
(in $ Billions)



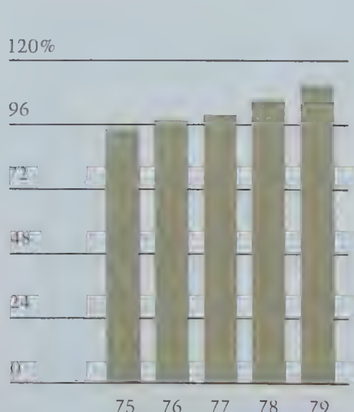
Reinsurance, the business of reinsuring the risks of other insurers, accounts for 11% of premiums written. Domestic and international written premiums in 1979 were essentially even with 1978, and had an annual compound growth rate of 11% since 1975. Competition continues to be intense in this field. Domestic facultative, or individual risk, coverages remained profitable. However, large losses in other areas—including those related to INA's participation in the Three Mile Island nuclear facility coverage as part of the American Nuclear Insurers Pool—produced an underwriting loss of $11.5 million for overall reinsurance. This compares with a loss of $1.4 million in 1978.

Marine and aviation insurance accounts for 8% of property-casualty's premiums written. Written premiums increased 12% in 1979, and at a 10% annual compound growth rate over the 1975-79 period. Competition has been particularly keen in this area, which in 1979 had an underwriting loss of $2.9 million, compared with a $1.8 million profit in 1978.

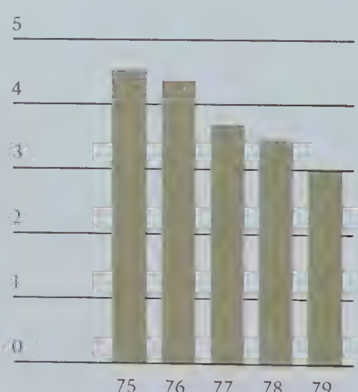
Bonding, in which the performance of contractors, employees, and similar parties is guaranteed through surety and fidelity protection, accounts for 2% of premiums written in property-casualty operations. Premiums in this area have grown somewhat slowly, reflecting a general industry trend as well as the company's recent reunderwriting of its book of bonding business. Written premiums in 1979 were essentially even with 1978, with the annual compound growth rate since 1975 being 7%. However, this area in 1979 showed marked improvement in underwriting, achieving an $8.5 million underwriting profit, versus an underwriting loss of $12.5 million in 1978.

Business Mix *(Dollars in thousands)*	1979 Written Premiums	% of Total	Annual Compound Growth 1975-79
Commercial Insurance			
Casualty	$ 824,523	30%	20%
Property	744,131	27	17
Reinsurance	306,731	11	11
Marine & Aviation	210,084	8	10
Bonding	64,723	2	7
Other	55,051	2	7
Total Commercial	2,205,243	80	16
Personal Insurance	573,407	20	12
Overall	$2,778,650	100%	15%

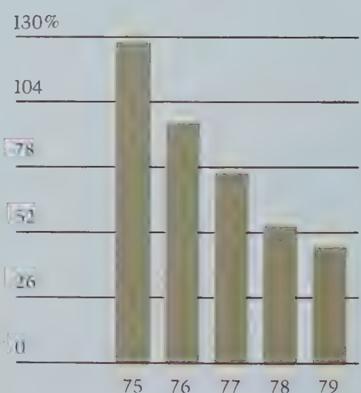
Property-Casualty Loss Reserves-to-Earned Premiums



Property-Casualty Written Premiums-to-Surplus



Property-Casualty Common Stocks-to-Surplus



Written Premiums By Line of Business

(Dollars in thousands)	1975	1976	1977	1978	1979
Commercial Insurance					
Property	$ 398,495	$ 501,875	$ 555,461	$ 647,223	$ 744,131
Casualty	396,631	475,422	572,463	742,269	824,523
Bonding	49,573	52,488	61,948	63,966	64,723
Marine & Aviation	142,108	154,101	169,652	187,783	210,084
Reinsurance	205,321	254,981	315,155	313,750	306,731
Other	42,423	47,545	51,294	37,938	55,051
Total Commercial	1,234,551	1,486,412	1,725,973	1,992,929	2,205,243
Personal Insurance					
Automobile	192,670	245,597	308,962	318,181	329,521
Homeowners	119,156	137,808	180,105	203,932	214,836
Other	49,086	64,337	53,007	35,802	29,050
Total Personal	360,912	447,742	542,074	557,915	573,407
Total	$1,595,463	$1,934,154	$2,268,047	$2,550,844	$2,778,650

Pre-Tax Operating Income

(Dollars in thousands)	1975	1976	1977	1978	1979
Underwriting Profit (Loss)					
Commercial Insurance					
Property	$ (13,198)	$ 37,830	$ 45,877	$ 48,378	$ 4,092
Casualty	(43,181)	(72,539)	(77,544)	(57,710)	(71,271)
Bonding	(2,011)	(6,906)	(10,930)	(12,540)	8,492
Marine & Aviation	(12,289)	10,486	9,066	1,770	(2,863)
Reinsurance	(10,192)	(7,911)	(11,321)	(1,433)	(11,510)
Other	(498)	(1,964)	658	(4,278)	(3,824)
Total Commercial	(81,369)	(41,004)	(44,194)	(25,813)	(76,884)
Personal Insurance					
Automobile	(24,250)	(35,711)	(10,332)	(5,375)	435
Homeowners	(4,972)	3,707	9,726	17,220	(13,371)
Other	(12,695)	(16,032)	(5,548)	(6,987)	3,678
Total Personal	(41,917)	(48,036)	(6,154)	4,858	(9,258)
Unallocated Items	(6,165)	(4,746)	(4,767)	132	1,315
Underwriting Profit (Loss)	(129,451)	(93,786)	(55,115)	(20,823)	(84,827)
Net Investment Income	121,547	153,307	194,182	229,092	297,441
Other Income	5,762	5,021	8,342	987	794
Total Pre-Tax Income	$ (2,142)	$ 64,542	$147,409	$209,256	$213,408

INA wrote the primary property-casualty insurance for the 1980 Winter Olympics, illustrating the capability to handle large and difficult risks.

Personal Lines Results

Personal insurance lines written premiums grew 3% in 1979 and had an annual compound growth rate of 12% over the 1975-79 period.

Competitive pressures and a restrictive regulatory environment stimulated a decline in policies in force and held down growth in this area. Underwriting results in the overall personal lines in 1979 amounted to a $9.3 million loss, versus a profit of $4.9 million in 1978.

Personal auto posted a $435,000 gain in 1979, versus a $5.4 million loss in 1978. In the homeowners area, catastrophe losses resulted in an underwriting loss of $13.4 million in 1979, compared with an underwriting profit of $17.2 million in 1978.

The foregoing personal lines results include revenues and earnings from the property-casualty operations of the Horace Mann Division.

Unallocated items represent principally foreign exchange gains and losses and other underwriting income and expense items that are not practicably allocable to the individual insurance lines. In 1979, such unallocated items produced a profit of $1.3 million, versus a profit of $132,000 in 1978.

Divisional Results

INA property-casualty insurance operations are conducted by five units: the Agency Division, Special Risk Division, International Division, Reinsurance Division, and the Diversified Services Division. The results of these operations are expressed in pre-tax income and revenues. Pre-tax income reflects the net of underwriting results, investment income, and income from insurance-related service operations. Revenues consist of premiums earned, revenues from insurance-related service operations, and net investment income.

Agency Division

The Agency Division in 1979 had pre-tax income of $127.5 million, compared with $117.8 million in 1978. Revenues were $1.6 billion, versus $1.5 billion in the prior year.

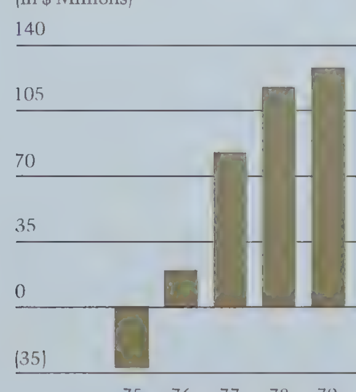
The Agency Division, the largest unit among the property-casualty divisions, markets a broad range of insurance products and services through a domestic independent agency system. It insures more than 250,000 businesses and institutions and over one million individuals.

The Agency Division is the primary contact with the domestic agency system, and thus plays an important role in introducing and delivering the full range of INA's capabilities to customers. It also manages the domestic claims operations for the Property-Casualty Group and provides technical support to other units.

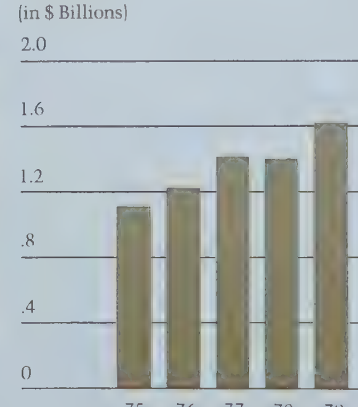
In 1979, the agent and broker force was increased by 600 to more than 7,000. Eleven new field marketing locations were established and three expanded to serve the growing agent/broker population.

The division increased its proportion of commercial lines premiums to 72%, and grew its commercial casualty lines through new products, enhancement of existing products, and new marketing programs.

Agency Division
Pre-tax Income
(in $ Millions)



Agency Division
Revenues
(in $ Billions)



Special Risk Division

The Special Risk Division in 1979 had pre-tax income of $27.8 million, compared with $25.7 million in 1978. Revenues were $519.1 million, versus $452.7 million in the prior year.

This division was formed in 1977 to meet the varied needs of large corporations and institutions, where risks tend to be large, complex and, in some instances, unusual in nature. The unit provides all major property and casualty coverages; specialty products such as professional liability, including medical malpractice and directors' and officers' liability; and coverages in excess and surplus lines markets.

Coverages by Special Risk are often structured to accommodate high deductibles, sophisticated retrospective rating plans, and various forms of self-insurance. The division also provides claims handling, loss control, cash management, and administrative services to self-insureds and captive insurance companies.

During 1979, Special Risk acquired an underwriting reinsurance pool for small-to-medium-sized oil refineries, storage depots, and petrochemical producers. It also formed special units to provide markets for medical malpractice, construction risks, and professional associations.

Four new offices were opened to provide expanded service and insurance coverages in the excess and surplus lines markets. Three new offices were established to provide specialized liability coverages for directors and officers.

International Division

The International Division in 1979 recorded pre-tax income of $18.9 million, compared with $30.7 million in 1978. Revenues were $491.2 million, versus $398.4 million in the prior year.

This unit, which is active in approximately 145 nations, addresses both the property-casualty and life insurance requirements of foreign businesses and U.S.-based multinational corporations.

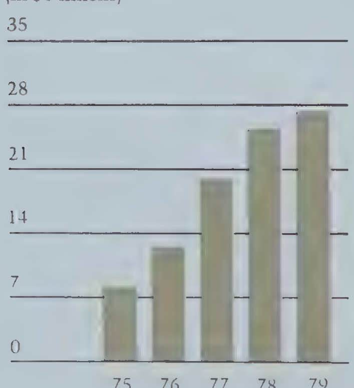
INA's participation in the international insurance market dates back to 1795, just three years after the founding of the company. Since that time, a wide range of coverages in both property-casualty and life areas has been developed. Life insurance revenues and income are included in the results of the Life Group. The International Division also combines capabilities for both primary and reinsurance programs.

During 1979, the International Division took a number of important steps to enhance its participation in the worldwide market.

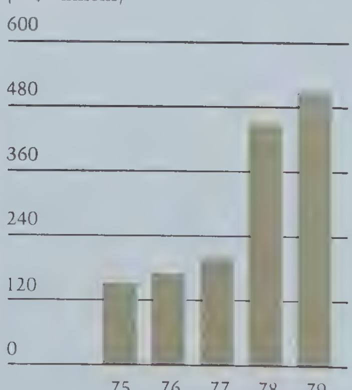
It acquired all-lines companies in Chile and established subsidiaries in Denmark and Ireland. A branch operation was set up in Greece to supplement the major life company already operating there. Life licenses were obtained in additional Caribbean nations. Preparations were also initiated to enter Switzerland and the Ivory Coast.

To further refine its operations, the International Division formed regional offices in

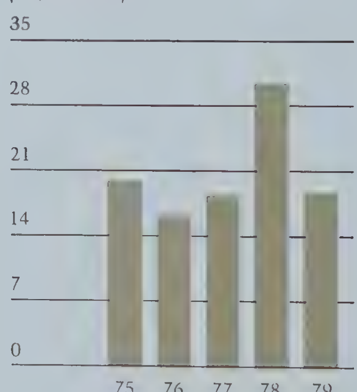
Special Risk Division Pre-tax Income (in $ Millions)



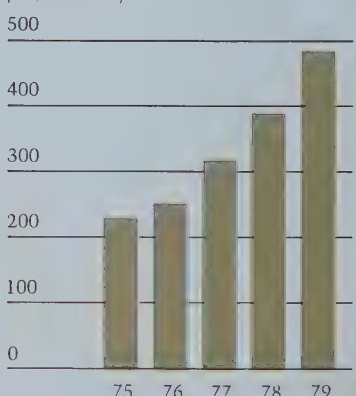
Special Risk Division Revenues (in $ Millions)



International Division Pre-tax Income (in $ Millions)



International Division Revenues (in $ Millions)



INA insures major structures throughout the world, such as the Peace Palace, seat of the International Court of Justice, in The Hague, Netherlands.

Australasia, Southeast Asia, and the Mideast.

Field management functions were strengthened by establishing area management concepts for the European and Pacific areas, and by subdividing the Latin American region into the South American and Caribbean Regions.

Existing market capabilities were strengthened, most notably in Japan where five new offices were opened.

In the United States, additional international offices were opened in Boston and Seattle to enhance the division's capability to service domestically-based multinational clients.

The product mix was also broadened in 1979 by establishing new subsidiaries for political risk insurance and off-shore third-country national life and property-casualty business.

Reinsurance Division

The Reinsurance Division in 1979 had pre-tax income of $19.5 million, compared with $23.3 million in 1978. Revenues were $172.4 million, versus $192.2 million.

The Reinsurance Division deals exclusively with domestic facultative and treaty reinsurance, and pool and syndicate business. In facultative reinsurance, a portion of the risks of a single insurance policy is assumed by another insurer; in treaty reinsurance, a portion of the risk of a group of policies is assumed by another insurer.

During 1979, the division emphasized adequate terms and tighter underwriting practices in the assumption and renewal of treaty business, where the trend of results has been unfavorable. Facultative business continues to show a positive pattern of underwriting results.

The division also maintained selective growth in specialty lines, consolidated the treaty organization through a new management structure, and developed new technical data capabilities to support treaty underwriters.

Diversified Services Division

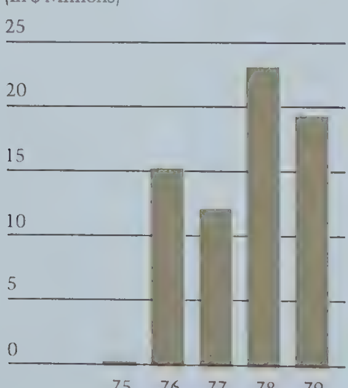
Operations of the Diversified Services Division in 1979 generated pre-tax income of $3.8 million, compared with $1.6 million in 1978. Revenues were $112.5 million, compared with $89.3 million in the prior year.

The division writes coverages for the agricultural insurance market; offers premium financing, subrogation, and premium collection services; and provides title insurance in 17 western states.

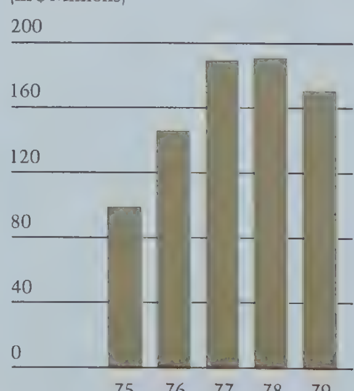
MarketDyne International, a pioneer and leader in providing marketing services for commercial and workers' compensation insurance programs directed to members of trade associations, is part of the division. In 1979, MarketDyne doubled its field offices and field sales personnel and expanded the range and scope of its programs.

The Diversified Services Division in 1979 broadened products in the agricultural area to provide more balance with crop hail insurance, which currently accounts for most of INA's agriculture-related premium income. Seven new subrogation and premium collection services offices were opened. A California office for premium financing was opened to better serve western markets. Title insurance operations were expanded to include California, Nevada, and Arizona, and the existing Texas operations in this business were enlarged.

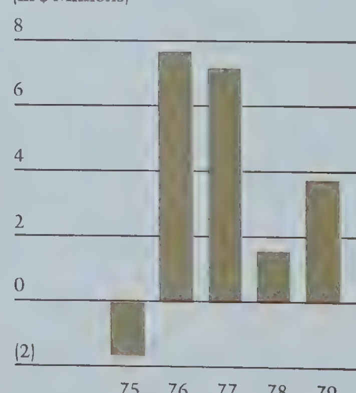
Reinsurance Division
Pre-tax Income
(in $ Millions)



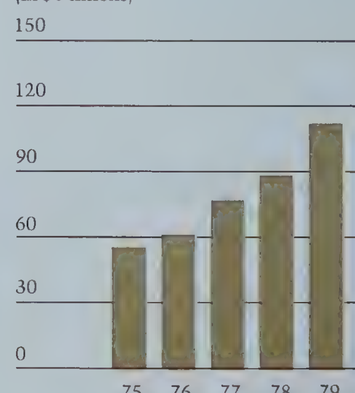
Reinsurance Division
Revenues
(in $ Millions)



Diversified Services Division
Pre-tax Income
(in $ Millions)



Diversified Services Division
Revenues
(in $ Millions)



Life Group

INA is a major force in specialty markets for life and group insurance coverages, including employer-employee programs.

INA entered the life insurance business in 1957. The domestic life insurance industry consists of approximately 1,800 companies. Estimated premiums written by the industry in 1979 were $86 billion.

The Life Group in 1979 recorded pre-tax income of $67.1 million, a 19% increase over 1978's $56.2 million. Revenues were $817.7 million, 10% above the $743.7 million of the prior year.

This segment of INA consists of two marketing units: the Life Division and Horace Mann Division. These operations offer varied group coverages for businesses, professional and trade associations, other groups, and individuals.

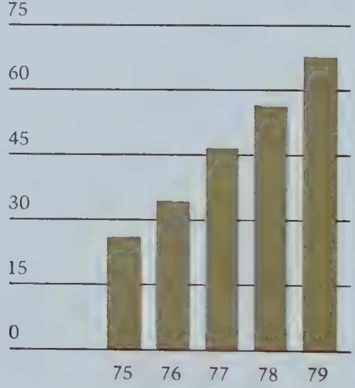
The Horace Mann Division also writes property-casualty coverages for teachers and in 1979 generated pre-tax income of $14.7 million and revenues of $136.3 million in this line. These earnings and revenues are included in results of property-casualty operations.

The single largest market for the Life Division's group products is employer-employee programs. Approximately 15,000 such groups subscribe to INA life, accident, pension, and disability plans. These coverages are provided both as employer-funded benefits and through voluntary participation of employees on a group basis.

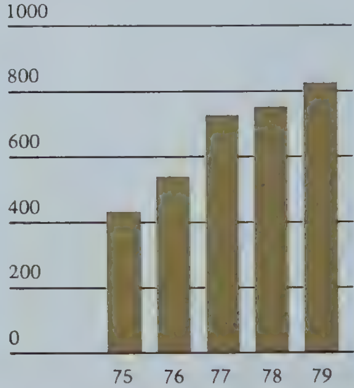
Professional and trade associations rank as the second largest market for group sales. These organizations subscribe to life, disability, and accident plans, as well as excess medical and specialty coverages.

Group coverages are also offered through banks, savings and loan associations, and other lending institutions. Products for these markets take the form of mortgage life, credit life and disability, and similar plans.

Life Group
Pre-Tax Income
(in $ Millions)



Life Group
Revenues
(in $ Millions)



Other specialty markets served by the Life Division include student groups, youth camps, sports associations, holders of bank and oil company credit cards, and members of travel clubs and other organizations.

Individual life insurance is marketed principally through property-casualty and general life insurance agents. Individual policies in force total approximately 182,000.

The Horace Mann Division markets its products exclusively to school teachers.

Life Division
The Life Division in 1979 achieved a 22% increase in pre-tax income to $51.7 million, compared with $42.3 million in 1978. Revenues moved up 10% to $638.5 million, versus $580.7 million. Five life insurance companies comprise this division.

Life Insurance Company of North America, the division's principal company, specializes in group life insurance, accident and health coverages, pension plans, and reinsurance. It is the leader in employer-employee accidental death and dismemberment insurance.

INA Life Insurance Company offers individual life insurance and annuities through independent agents and brokers.

Investors Life Insurance Company of North America writes life insurance and annuity products through stockbrokers and other financial advisors.

INA Life of New York and INA Life of Canada write all forms of life and group coverages, and offer pension plans, in New York and Canada.

Horace Mann Division
The Horace Mann Division life operations in 1979 increased their pre-tax income 19% to $16.6 million, compared with $14 million in 1978. Revenues were $156 million, a 6% improvement over the $147.8 million of the prior year.

These results reflect progress in all major areas of the unit.

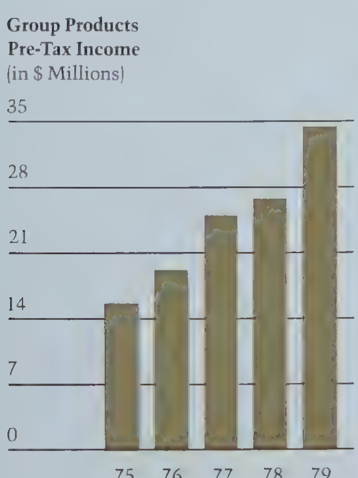
Horace Mann markets individual and group insurance and retirement plans to teachers through the Horace Mann Life and Educators Life companies.

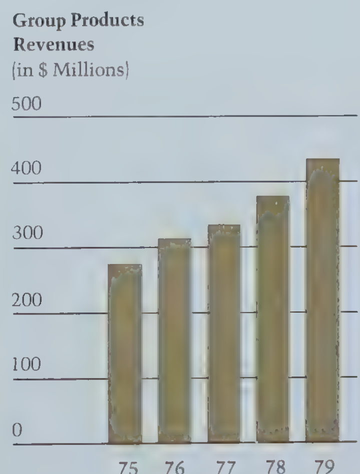
The division in 1979 increased its agent force to more than 700 and now has policies in force in all states except Hawaii.

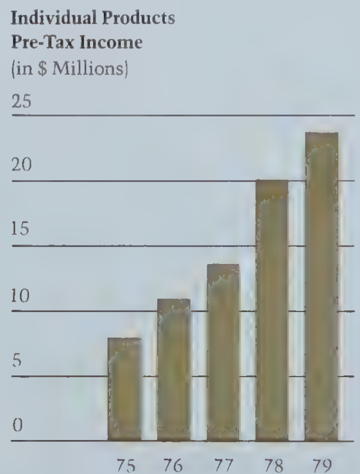
Horace Mann's line of personal automo-

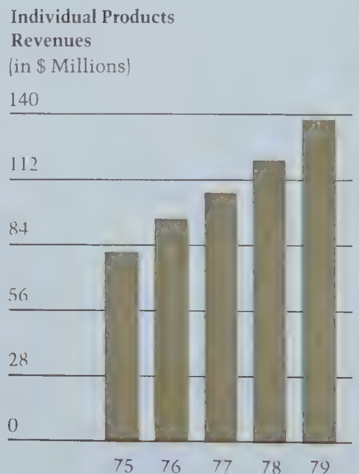
Business Mix

(Dollars in thousands)	1979 Revenues	% of Total
Group	$436,352	53%
Annuity	195,825	24
Individual	138,763	17
Reinsurance	23,549	3
Other	23,205	3
Total	$817,694	100%









bile and homeowners insurance for teachers is offered through Horace Mann Insurance Company and the Teachers Insurance Company. The division's Public Employees Insurance Company specializes in the mass merchandising of automobile and homeowners insurance to teachers and other public service employees.

Product Line Results

The Life Division and Horace Mann Division offer comparable products in their markets. The following results reflect the progress of both units in key product lines.

Group insurance reported pre-tax income of $34.6 million, an increase of 29% over 1978. Revenues increased 15% to $436.4 million. This area offers group life, accident, and health coverages, and pension plans. Strong underwriting results were recorded in association, accidental death and dismemberment, and pension markets.

During 1979, group operations developed new approaches to life and accidental death and dismemberment products, including innovations in voluntary group term life, retired employee life, and employee travel and income protection plans.

Individual insurance operations reported pre-tax income of $23.9 million, up 19% over 1978. Revenues rose to $138.8 million, a 14% increase. During the year, mortality was up slightly, but this was more than offset by greater investment earnings and tight control of expenses.

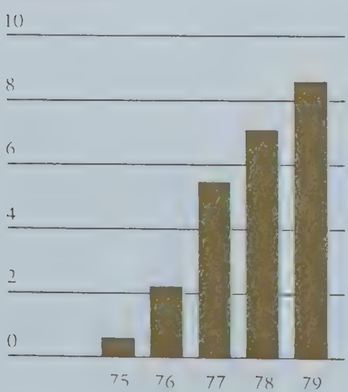
The individual life portfolio was expanded to meet changing customer needs, and a full line of term-oriented life insurance products was introduced for sales through stockbrokers.

Annuity operations produced pre-tax income of $8.5 million, an increase of 17% over 1978. Revenues decreased 5% to $195.8 million. This resulted from the significant increase in interest rates late in the year, which made available alternate competitive investments that were attractive to buyers. Steps are being taken to improve the interest credited to policyholders, and products have been enhanced to strengthen their appeal. However, the continuation of high interest rates will keep pressure on revenues and earnings in this area.

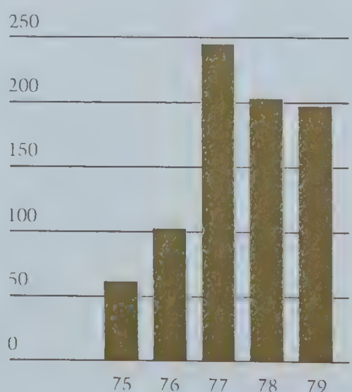
Reinsurance operations reported decreased pre-tax income of $1.2 million in 1979, compared with $2 million in 1978. This was due to an increase in mortality. Revenues increased 7% to $23.5 million. Underwriting corrections should position this area for a return to more normal profit levels in 1980. Production capacity was expanded by establishing two new field offices to service a growing clientele of life insurance companies.

The property-casualty operations of Horace Mann increased their pre-tax income 22% over 1978. Revenues moved up 5%. This slowing was due to stringent underwriting standards. Horace Mann's 1979 combined ratio was 98.3%, versus 98.9% for the prior year.

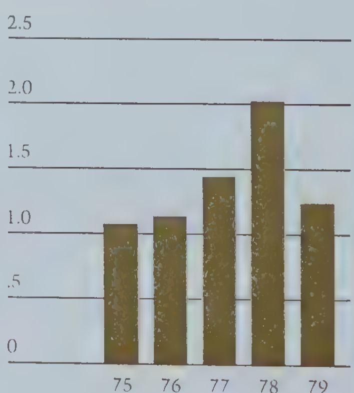
Annuity Products Pre-Tax Income
(in $ Millions)



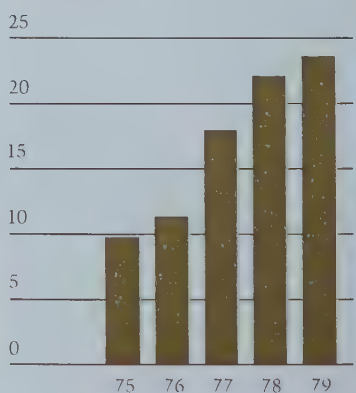
Annuity Products Revenues
(in $ Millions)



Reinsurance Products Pre-Tax Income
(in $ Millions)



Reinsurance Products Revenues
(in $ Millions)



Health Care Group

Hospital Affiliates, Inc. is a world leader in managing hospitals, including institutions such as the Tulane Medical Center.

Health Care Group

INA entered the health care business in 1969. Its activities in this field today consist of hospital ownership and management, prepaid health care, and rehabilitation services. The investor-owned segment of the hospital industry in 1979 had estimated revenues of $12.4 billion.

The Health Care Group in 1979 achieved pre-tax income of $41.6 million, an increase of 48% over the $28.1 million of 1978. Revenues moved up 39% to $553 million from $397 million. Existing operations grew strongly, accounting for about half of the increase, with acquisitions contributing the remainder.

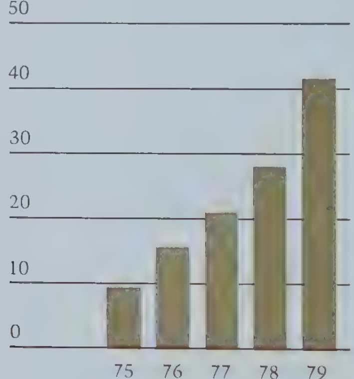
The Health Care Group operates in four basic areas: the management and ownership of domestic hospitals through Hospital Affiliates, Inc., the management and ownership of international hospitals through various companies, prepaid health care services through INA Healthplan, Inc., and medical and physical rehabilitation programs through International Rehabilitation Associates, Inc.

INA's participation in health care is based on the concept of applying the efficiencies of professional business management to the delivery of quality health care. Its largest activities in this segment are the ownership and management of hospitals and skilled nursing facilities. Domestically and internationally, the group owns or manages 169 such facilities with a total of more than 22,000 beds.

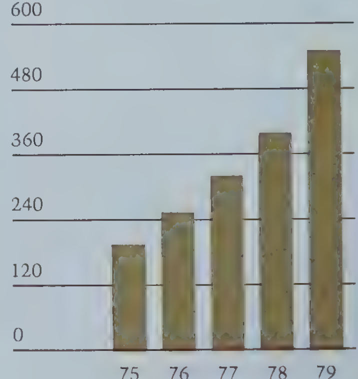
The participation of investor-owned companies in the hospital industry is relatively new, having emerged in the late 1960's and early 1970's. Today, there are approximately 36 companies engaged in the field. They own and manage approximately 465 hospitals with a total of about 66,000 beds in the United States and 15 foreign countries.

The investor-owned hospital industry has grown from annual revenues of $4.8 billion in 1975 to an estimated $12.4 billion in 1979.

Health Care Pre-Tax Income
(in $ Millions)



Health Care Revenues
(in $ Millions)



This new facility in Los Angeles typifies INA Healthplan's rapid expansion in providing prepaid health care to subscribers.

Domestic Hospital Operations

Hospital Affiliates (HAI), the single largest unit of the Health Care Group, owns or manages 142 hospitals with over 18,000 beds in 34 states.

Of this total, 48 hospitals with 7,200 beds are operated by the unit for its own account. They are located in both small and large communities, including such metropolitan areas as Los Angeles and Houston.

In 1979, HAI acquired two hospitals, began construction of two others, commissioned one new facility, began expansion programs at five, and reached agreements to acquire four others.

HAI was the first company to engage in the management of hospitals owned by others and continues as the leader in this field. During 1979, the unit signed 20 new agreements and at year-end had management contracts for a total of 94 hospitals with more than 11,000 beds. These include publicly owned, non-profit, and university-teaching institutions. Under the contracts, HAI conducts day-to-day operations and is involved in planning and development as well.

HAI also owns skilled nursing facilities and late in the year entered the field of managing these institutions for others. HAI acquired two skilled nursing facilities in 1979, and at year-end owned 17 of these institutions with a total of more than 2,000 beds.

International Hospital Operations

In 1979, the International Division acquired two hospitals and began construction of two others in Australia, and obtained management agreements to develop and operate hospitals in the United Kingdom, Saudi Arabia, the United Arab Emirates, and Singapore. Expansion in the international health care market continues to be a major objective of the INA Health Care Group.

Prepaid Health Operations

INA entered the prepaid health care business in 1978 with the acquisition of a prepaid health plan in California. Early in 1979, INA acquired a second prepaid health plan in Arizona and obtained options to purchase two others in Florida.

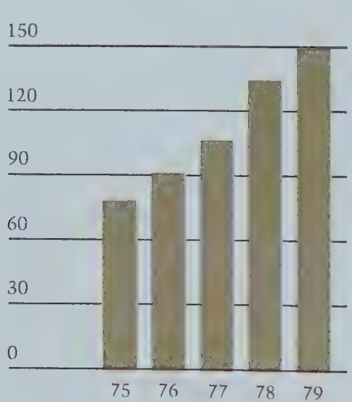
During 1979, the prepaid health care business adopted the name INA Healthplan. The unit established headquarters in Dallas and initiated plans to develop a prepaid health plan there.

INA Healthplan provides comprehensive medical services, including preventive check-ups, physician office visits, and hospitalization, for a pre-determined monthly fee. Individuals and families are able to obtain health care services at a cost which they know in advance. Subscribers join the plan primarily through their employers.

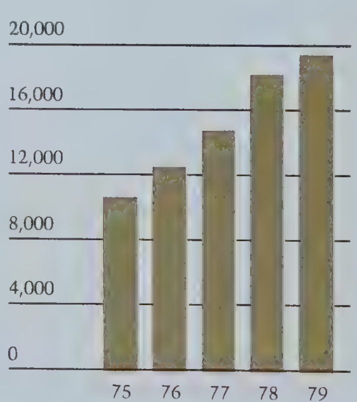
Rehabilitation Operations

International Rehabilitation Associates in 1979 continued its pattern of growth. It served 20,000 disabled persons through a nationwide network of more than 500 caseworkers on behalf of more than 700 client organizations. IRA is the leading private provider of rehabilitation counseling and related services in the world. It serves the rehabilitation needs of insurance companies, self-insureds, government, and business.

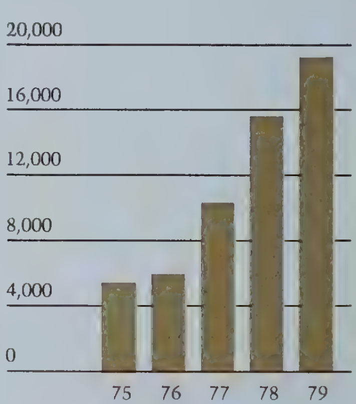
Health Care
Hospitals Owned & Managed



Health Care
Hospital Beds Owned & Managed



Health Care
Rehabilitation Cases



Investment Group

INA's trading room is a focal point for monitoring developments in securities' markets and conducting transactions for both inside and outside investment portfolio activities.

Investment Group

The Investment Group was formed in early 1980 to consolidate INA's involvement in insurance portfolio management, outside portfolio management, equity participations, and real estate.

Gross Investment Income.
Gross investment income rose 26% to $463 million in 1979, compared with $366.7 million in 1978. Taxable interest income increased 32% to $290.2 million, from $219.9 million in the prior year. Tax-exempt interest income in 1979 rose 24% to $131.8 million, compared with $106.4 million in 1978.

Major components of 1979 gross investment income included earnings from taxable securities, which generated 63% of the total; tax-exempt securities income, which accounted for 28%; dividend income, which produced 7%; and miscellaneous investment income, which represented 2%.

Property-casualty activities produced net investment income approximating $297 million in 1979. This represents 66% of the total portfolio net investment income.

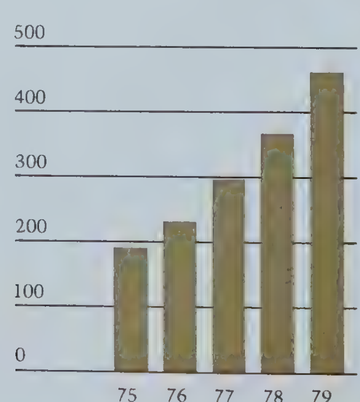
Total Portfolios
At the end of 1979, INA's investment portfolios totaled $6.1 billion, an increase of 11% over the $5.5 billion at year-end 1978.

The portfolios have grown from $3.1 billion in 1975, an increase of 95%.

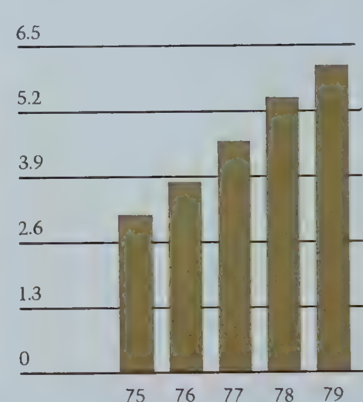
Taxable bonds make up $2.8 billion, or 46%, of the portfolios. Tax-exempt bonds comprise $2.4 billion, or 40%, of the portfolio. Equity securities represent $696 million, or 12%, of the total.

Until 1977, cash flow to the portfolios was invested principally in taxable securities. Late in that year, after utilization of tax loss carry-forwards, a program was begun to convert $500 million of the portfolios to tax-exempt securities. This program was completed in 1978, and the majority of subsequent cash flow has been invested in tax-exempt securities.

Gross Investment Income
(in $ Millions)



Total Investments
(in $ Billions)



Since 1975, common stocks in the insurance portfolios have been reduced both as a percentage of surplus and in absolute amounts. This reflects the effort to reduce the impact of market fluctuations on the surplus position of the insurance companies. Proceeds of common stock sales have been invested in taxable and tax-exempt bonds which have produced higher yields and provided more stability.

Insurance Portfolios Cash Flow
In 1979, the net cash flow to the insurance investment portfolios totaled $750 million, compared with $781 million in 1978. This reflects an absence of external financings in 1979, as well as a decline in annuity revenues of the Life Group. Proceeds of approximately $40 million from a Eurosterling offering added to the cash flow in 1978.

Of the total cash flow to the insurance portfolios, $509 million, or 68%, was generated by the Property-Casualty Group and $241 million, or 32%, by the Life Group.

The cash flow to insurance portfolio investments has grown from $272 million in 1975 to the $750 million in 1979, or an annual compound growth rate of 29%.

Outside Portfolio Management
INA Capital Management Corporation provides portfolio management services to businesses and institutions. The principal clients are pension plans, investment companies, and endowment funds. At year-end 1979, assets under management totalled $665 million, including the INA Corporation pension fund account. This compares with $430 million at year-end 1978.

INA Capital Management also offers a money-market mutual fund for individuals and manages INA Investment Securities, Inc., a closed-end bond fund listed on the New York Stock Exchange. It also serves as an investment advisor to other mutual funds.

Equity Participations, Special Investments
INA has a number of equity positions, including approximately 22% of Paine Webber Incorporated, and 5% of Compagnie Financière de Suez, a Paris-based financial services firm.

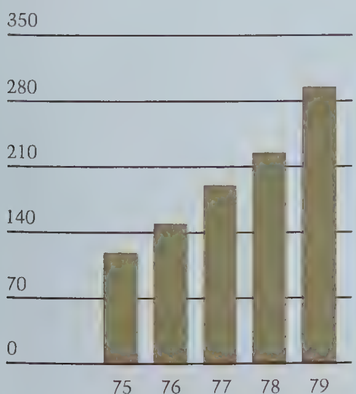
One of the roles of the Investment Group will be to evaluate additional equity positions consistent with the Corporation's investment objectives.

The area of special investments involves

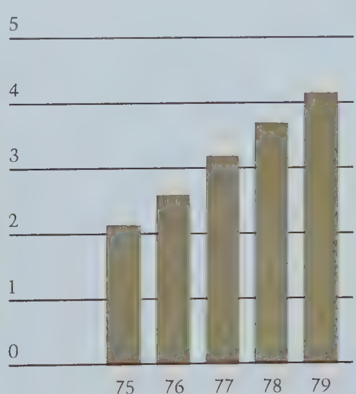
Components of Gross Investment Income

(Dollars in millions)	1975		1976		1977		1978		1979	
Taxable	$ 58.7	30%	$109.8	46%	$175.1	59%	$219.9	60%	$290.2	63%
Tax-exempt	74.2	38	70.0	30	67.5	23	106.4	29	131.8	28
Dividends	50.3	26	45.7	19	33.9	11	31.5	9	32.4	7
Miscellaneous	9.6	6	11.1	5	20.2	7	8.9	2	8.6	2
Total	$192.8		$236.6		$296.7		$366.7		$463.0	

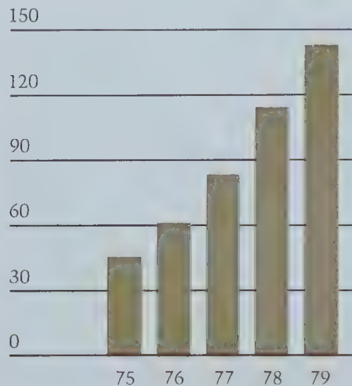
Property-Casualty Group Net Investment Income
(in $ Millions)



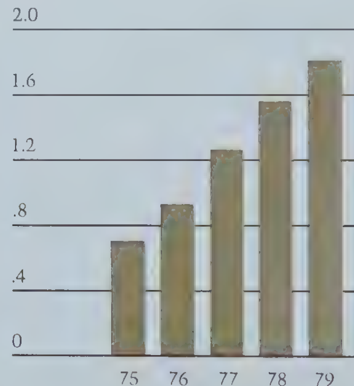
Property-Casualty Group Investments
(in $ Billions)



Life Group Net Investment Income
(in $ Millions)



Life Group Investments
(in $ Billions)



INA's participation in joint ventures with other investors. Recently the Corporation announced its participation in a plan to build a $100 million hotel/office complex in downtown Philadelphia, with construction scheduled to begin in 1980.

INA also has investments in specialized natural resource situations, primarily oil and gas partnerships. The Corporation is currently identifying and evaluating emerging technologies and other resource areas that may offer attractive venture opportunities.

Real Estate Holdings

During 1979, M. J. Brock & Sons, Inc., INA's home building subsidiary, recorded pre-tax income of $13.7 million, below the record $16.2 million of 1978. Revenues were $103 million, versus $102 million in the prior year.

Brock's principal operations are in southern California, where the home construction market experienced a slowdown late in the year. Although Brock was affected by the downturn, the company's practices of purchasing only zoned land and controlling work in process moderated the impact.

Brock has been a factor in the southern California home-building market for more than three decades. During 1979, it completed its 20,000th home. Homes built during 1979 totaled 1,151, compared with 1,346 in 1978.

The company has newer operations in San Francisco and Colorado. The latter is benefiting from growth related to the rapid expansion of energy facilities.

Brock is also engaged in the financing of homes, an area which has been identified for increased emphasis as a part of INA's overall investment program.

Brock is a pioneer in developing energy-efficient homes. During 1979, the company completed a new production passive solar home which, without employing electronic or mechanical devices, is designed to be 4-5 times more energy efficient than conventional homes.

The home achieves its energy conservation through orientation of the structure with respect to the sun, use of energy-efficient building materials and insulating techniques, and energy-sensitive architectural design.

Brock is also one of 10 firms throughout the nation, and the only one in California, chosen by the National Association of Home Builders to construct showcase energy conservation homes.

The objective of this program is to develop homes that are energy efficient while responding to key market criteria such as appearance and cost. The homes will be designed to be compatible with local homeowner preferences, as well as the region's climate.

The experimental homes will be completed in late 1980 and subsequently will be monitored to evaluate the cost effectiveness of the energy-saving products and techniques employed.

Investments

(Dollars in millions)	1975		1976		1977		1978		1979	
Taxable	$ 990.7	32%	$1,755.2	46%	$2,555.8	55%	$2,560.4	47%	$2,799.2	46%
Tax-exempt	1,152.5	37	1,117.6	29	1,291.8	28	2,113.4	39	2,414.5	40
Equities	873.6	28	820.2	22	695.2	15	645.5	12	696.3	12
Miscellaneous	87.6	3	100.2	3	123.3	2	134.1	2	148.5	2
Total	$3,104.4		$3,793.2		$4,666.1		$5,453.4		$6,058.5	

INA's commitment to professional, technical, and management development is exemplified by the new $15 million Eagle Lodge training center, shown here in a model.

The standards of professionalism and leadership which guide the management of INA's businesses also apply in a number of key areas of corporate concern.

Following is a summary of activities in these areas to complete the perspective on the Corporation in the fulfillment of its responsibilities to shareholders, employees, customers, and the society in which it functions.

Training and Development

Technical training and management development at all levels of the organization are basic to leadership in an environment of rapid change and increasing complexity.

During 1979, the company conducted some 60 training courses which were attended by more than 1,200 employees. In addition, INA personnel participated in a wide range of management development and technical-professional training programs conducted by outside organizations.

To facilitate the Corporation's commitment to training and development, INA during 1979 began construction of a $15 million conference center near Philadelphia.

The new Eagle Lodge facility, scheduled for completion in the fall of 1980, will be equipped with modern classrooms, lodging, and dining facilities for training programs of every type.

Minority Programs

INA's commitment to equal employment opportunity and affirmative action is reflected in both formal Corporate policy and day-to-day hiring practices. It also extends outside the Corporation in the form of leadership in programs to train minorities for jobs in insurance.

For example, the Corporation helped initiate the insurance course of study at Howard University, a predominantly black institution in Washington, D.C. A five-year lead pledge of $335,000 helps prepare graduates of this course to enter the insurance field.

A four-year pledge of $96,000 to the actuarial program of the Carnegie-Mellon Institute similarly supports training for minorities in a fundamental insurance discipline.

A grant to Smith College provides scholarship aid to minority women, with an emphasis on the actuarial sciences.

Public Policy, Industry Affairs

When matters of public policy relate to INA's interests, the Corporation believes it has a responsibility to set forth its views on the key issues and to contribute solutions to basic problems.

INA's consistent position on public policy issues is that competition is more effective than regulation in serving the public interest.

This was the case in 1979 when the Congress considered—and subsequently rejected—legislation on hospital cost containment.

During Congressional hearings on this matter, senior management of INA testified and presented INA's opposition to the legislation.

More importantly, INA's testimony advanced an alternative which would employ the principles of private enterprise and competition to reward efficiency and thereby serve more effectively to arrest the spiraling cost of health care.

The Corporation is also actively involved in a spectrum of insurance-related legislation and regulatory matters.

For example, INA has contributed $250,000 toward the funding of a five-year research program by the Yale Law School to explore the impact on society of court-generated changes in the law of civil liability.

Cultural Affairs

In 1979, INA made a lead pledge of $250,000 to the Philadelphia Orchestra, having just completed a $60,000 earlier pledge. This support of the orchestra's capital endowment fund will help it to continue as a major cultural asset of the area.

A commitment of $150,000 has been made to the Pennsylvania Ballet to assist it in refinancing its debt structure, and WHYY, a Philadelphia television station of the Public Broadcasting System, received $50,000 to help it move to new quarters made available by the city.

The Philadelphia Museum of Art received $150,000, the Academy of Natural Sciences $50,000, and the Franklin Institute $30,000. These amounts will assist the institutions in meeting inflationary operating costs.

Rehabilitation

INA has a business in physical rehabilitation, but its interest in this field goes beyond that operation.

A pledge of $100,000 to the University of Pennsylvania Hospital established the INA Orthotic/Prosthetic unit. This unit is developing new and improved artificial limbs and other devices to help the handicapped.

Educational grants totaling $47,000 to Temple University and the University of Pennsylvania support programs in rehabilitation counseling and nursing.

Corporate Governance

As its official policy-making body, INA Corporation's board of directors, comprised of non-management members with the exception of the chief executive officer, plays an increasingly active role in evaluating objectives and monitoring performance. Beyond its monthly meetings, in which management reports on results and the current situation, the board functions through six committees focused on key areas of management.

The Executive Committee, between regular board meetings, exercises the authority of the board of directors in the management of the company's business.

The Audit Committee recommends the appointment of independent certified public accountants to audit the books, records, and accounts of the company; examines and makes recommendations regarding the plans for the annual audit by independent accountants, as well as the plan for the company's internal audit; and reviews the company's financial statements.

The Investment Committee approves and causes the implementation of the company's investment policy, as well as that of its insurance subsidiaries and any wholly owned subsidiaries that the board may designate.

The Organization and Compensation Committee periodically reviews the company's salary structure and recommends to the board all executive compensation plans and all other benefits for officers and key employees. It also reviews the succession plans for the company's principal officers, and periodically reviews the management of the company.

The Nominating Committee considers suggestions for board membership and recommends to the board those to be nominated for election by the shareholders at the annual meeting of shareholders and to be chosen by the board to fill board vacancies.

The Public Issues Committee oversees the company's position on significant issues in community affairs, corporate contributions, government relations, corporate public affairs, consumer concerns, public disclosure, and other public interest matters.

Internal Control

The Corporation maintains a system of internal control designed to provide reasonable assurance to management and the board of directors that transactions are executed in accordance with management's authorization and that adequate records are produced for the proper preparation of financial information.

During 1979, management instituted a corporate-wide review of its internal controls system to summarize and evaluate the overall control environment and established an ongoing program to monitor and, as required, modify the system. In addition, the Corporation's internal auditors test compliance with internal controls and operating procedures and review the effectiveness of the financial reporting function. These audit activities are coordinated with those of the independent public accountants.

Ten Year Financial and Statistical Review

(Dollars in thousands, except per share data)	1979	1978	1977[1]
Summary of Operations			
Revenues[2]	$ 4,551,372	$ 4,025,002	$ 3,597,930
Operating income before income taxes[2]	307,956	296,387	224,107
Income taxes related to operations[2]	63,400	85,000	58,900
Net operating income from continuing operations	244,556	211,387	165,207
Net loss on discontinued operations	—	—	(4,226)
Realized securities gains net of income taxes	17,081	2,308	804
Net income	261,637	213,695	161,785
Per common share:[3]			
Primary:			
Net operating income from continuing operations	$6.34	$5.58	$4.41
Net loss on discontinued operations	—	—	(.11)
Realized securities gains net of income taxes	.44	.06	.02
Net income	6.78	5.64	4.32
Assuming full dilution:			
Net operating income from continuing operations	6.13	5.39	—
Realized securities gains net of income taxes	.42	.06	—
Net income	6.55	5.45	—
Dividends declared	2.05	1.733	1.533
Average common shares and common share equivalents outstanding[3]	38,579,370	37,888,500	37,476,410
Other Operating Financial and Statistical Data			
Net investment income	$ 450,352	$ 353,390	$ 288,214
Total assets[2]	8,987,035	8,036,490	6,523,917
Total shareholders' equity	1,526,009	1,327,240	1,166,290
Shareholders' equity per common share[3]	39.60	34.71	31.02
Employees	35,280	33,987	27,804
Shareholders	25,040	25,739	25,983
Shares outstanding December 31:			
Preferred	506,196	546,436	68,979
Common[3]	38,109,006	37,725,765	37,372,530
Property-Casualty Insurance:			
Premiums written	$ 2,778,650	$ 2,550,844	$ 2,268,047
Premiums earned	2,659,932	2,430,403	2,156,568
Adjusted underwriting profit (loss)	(84,827)	(20,823)	(55,115)
Ratios (statutory basis):			
Claims incurred to premiums earned	72.4%	71.2%	73.1%
Expenses incurred to premiums written	29.4	28.6	28.6
Combined	101.8%	99.8%	101.7%
Combined—after policyholders' dividends	102.8%	100.4%	102.1%
Life and Group Insurance:			
Premiums and annuity considerations	$ 670,804	$ 624,436	$ 631,885
Life insurance in force	15,353,000	14,833,000	12,983,000
Health Care Revenues	$ 553,297	$ 397,153	$ 323,804

(1) *Certain operating and balance sheet data have been restated for changes in accounting adopted in 1978.*
(2) *Reclassified to reflect investment banking operations on the equity basis of accounting for the years 1976 through 1978. (See note 1 to Consolidated Financial Statements.)*
(3) *After effect of 3-for-2 stock split.*

1976[1]	1975[1]	1974[1]	1973	1972	1971	1970
$ 2,924,025	$ 2,488,641	$ 2,314,996	$ 2,119,525	$ 1,674,214	$ 1,384,161	$ 1,236,470
116,948	33,826	67,973	136,043	136,371	120,121	78,109
17,700	(27,362)	(15,800)	20,700	26,300	22,645	13,006
99,248	61,188	83,773	115,343	110,071	97,476	65,103
(7,500)	—	—	—	—	—	—
1,785	7,619	17,605	20,047	7,893	6,674	5,470
93,533	68,807	101,378	135,390	117,964	104,150	70,573
$2.67	$1.66	$2.25	$2.99	$2.80	$2.53	$1.72
(.20)	—	—	—	—	—	—
.05	.21	.47	.52	.20	.17	.14
2.52	1.87	2.72	3.51	3.00	2.70	1.86
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
1.40	1.40	1.40	1.373	.95	.971	.933
37,134,582	36,756,380	37,292,382	38,615,952	39,266,274	38,578,346	37,909,194
$ 228,134	$ 184,396	$ 171,204	$ 149,842	$ 114,317	$ 97,467	$ 84,613
5,419,918	4,497,269	3,957,396	4,065,174	3,524,720	3,101,303	2,720,866
1,102,420	960,639	804,670	1,048,948	1,161,093	980,683	856,017
29.53	26.21	22.01	27.98	29.77	25.41	22.51
27,942	26,800	26,500	26,800	19,900	17,600	16,800
29,310	30,362	33,176	31,775	29,337	29,043	31,824
68,979	68,979	68,979	69,140	69,381	69,381	69,458
37,100,352	36,390,305	36,247,607	37,243,188	38,765,642	38,320,025	37,723,250
$ 1,934,154	$ 1,595,463	$ 1,465,456	$ 1,399,971	$ 1,210,504	$ 979,664	$ 881,990
1,775,897	1,560,674	1,464,221	1,378,011	1,189,073	978,934	888,220
(93,786)	(129,451)	(82,879)	3,032	21,569	32,003	(9,356)
75.6%	77.7%	74.9%	68.6%	67.6%	65.5%	69.7%
28.2	29.8	31.3	31.1	30.4	31.2	30.7
103.8%	107.5%	106.2%	99.7%	98.0%	96.7%	100.4%
104.0%	108.1%	106.8%	100.3%	98.4%	97.1%	100.8%
$ 471,424	$ 378,773	$ 368,169	$ 336,586	$ 200,148	$ 173,758	$ 145,693
12,852,000	11,737,000	10,657,000	8,779,000	5,969,000	5,182,000	4,765,000
$ 251,606	$ 194,657	$ 143,204	$ 105,930	$ 50,759	$ 38,423	$ 27,382

Consolidated Statement of Income

(Dollars in thousands, except per share data)	Years Ended December 31 1979	1978*
Revenues		
Insurance premiums	**$3,330,736**	$3,054,839
Net investment income	**450,352**	353,390
Other diversified operations	**770,284**	616,773
	4,551,372	4,025,002
Benefits, Costs and Expenses		
Insurance claims and policyholders' benefits	**2,522,947**	2,286,441
Policy acquisition expenses	**561,840**	506,538
Other operating expenses	**1,158,629**	935,636
	4,243,416	3,728,615
Operating income before income taxes	**307,956**	296,387
Income taxes:		
Current	**27,600**	43,400
Deferred	**35,800**	41,600
	63,400	85,000
Net operating income	**244,556**	211,387
Realized securities gains net of income taxes of $5,100; ($2,500 in 1978)	**17,081**	2,308
Net income	**$ 261,637**	$ 213,695
Earnings Per Common Share**		
Primary:		
Net operating income	**$6.34**	$5.58
Realized securities gains net of income taxes	**.44**	.06
Net income	**$6.78**	$5.64
Assuming full dilution:		
Net operating income	**$6.13**	$5.39
Realized securities gains net of income taxes	**.42**	.06
Net income	**$6.55**	$5.45

See accompanying notes

**Reclassified to reflect investment banking operations on the equity basis of accounting (see note 1).*
***Per share amounts are after effect of 3-for-2 stock split.*

Consolidated Balance Sheet

(Dollars in thousands)	December 31 1979	1978*
Assets		
Investments:		
Short-term, at cost which approximates market	$ 379,490	$ 495,364
Bonds at amortized cost (market value $4,150,057; $3,870,260 in 1978)	4,834,252	4,178,422
Stocks at market value:		
Preferred (cost $125,295; $62,999 in 1978)	107,268	55,553
Common (cost $244,985; $263,537 in 1978)	520,081	512,891
Real estate, mortgages and policy loans	148,499	134,083
Investment in unconsolidated affiliates	68,930	77,045
Total investments	6,058,520	5,453,358
Cash (including certificates of deposit of $163,458; $113,579 in 1978)	283,572	227,886
Premiums, accounts and notes receivable (net of allowance for doubtful accounts of $19,629; $18,659 in 1978)	1,006,203	890,760
Property and equipment at cost (less accumulated depreciation of $149,258; $126,665 in 1978)	403,609	359,662
Deferred acquisition costs	287,031	266,405
Goodwill	53,782	57,131
Assets of separate accounts	350,557	345,181
Other assets	543,761	436,107
Total assets	$8,987,035	$8,036,490
Liabilities		
Unpaid claims and policyholders' benefits	$4,572,796	$3,938,995
Unearned premiums	1,102,515	987,530
Short-term notes and current portion of long-term debt	115,413	106,894
Accounts payable, accrued expenses and other liabilities	635,740	676,470
Income taxes:		
Current	20,897	43,422
Deferred	258,672	228,420
Liabilities of separate accounts	350,557	345,181
Long-term debt	404,436	382,338
Total liabilities	7,461,026	6,709,250
Shareholders' Equity		
Preferred shares	506	546
Common shares	40,412	26,767
Additional paid-in capital	190,940	197,252
Unrealized securities gains	203,667	197,621
Retained earnings	1,144,154	961,558
	1,579,679	1,383,744
Less treasury shares at cost	(53,670)	(56,504)
Total shareholders' equity	1,526,009	1,327,240
Total liabilities and shareholders' equity	$8,987,035	$8,036,490

See accompanying notes

**Reclassified to reflect investment banking operations on the equity basis of accounting (see note 1).*

Consolidated Statement of Shareholders' Equity

(Dollars in thousands)	Years Ended December 31 **1979**	1978
Preferred Shares (Convertible)		
Par value, $1.–9,514,605 shares authorized (9,514,703 in 1978)		
Series A, $4.25 cumulative dividend; 68,881 shares issued and outstanding; (68,979 in 1978)		
Balance beginning and end of year	**$ 69**	$ 69
Series C, $1.90 cumulative dividend; 437,315 shares issued and outstanding; (477,457 in 1978)		
Balance at beginning of year	**477**	—
Shares issued—acquisition of subsidiaries	**(50)**	477
stock option plans	**10**	—
Balance at end of year	**437**	477
Total Preferred Shares	**506**	546
Common Shares		
Par value $1.–50,000,000 shares authorized; 40,412,474 shares issued including treasury shares (40,150,850 in 1978 after split)		
Balance at beginning of year	**26,767**	26,717
Shares issued—acquisition of subsidiaries	**27**	—
stock split	**13,470**	—
debt conversion and other	**148**	50
Balance at end of year	**40,412**	26,767
Additional Paid-in Capital		
Balance at beginning of year	**197,252**	188,067
Shares issued—acquisition of subsidiaries	**1,333**	7,092
stock split	**(13,470)**	—
debt conversion and other	**5,825**	2,093
Balance at end of year	**190,940**	197,252
Unrealized Securities Gains, Net		
Balance at beginning of year	**197,621**	200,653
Increase (decrease) in unrealized securities gains	**6,046**	(3,032)
Balance at end of year	**203,667**	197,621
Retained Earnings		
Balance at beginning of year	**961,558**	813,745
Net income	**261,637**	213,695
Dividends declared	**(79,041)**	(65,882)
Balance at end of year	**1,144,154**	961,558
Treasury Shares		
At cost, 2,303,468 common shares at end of year (2,425,085 in 1978)		
Balance at beginning of year	**(56,504)**	(62,961)
Acquisition of subsidiaries; 93,078 shares; (267,456 shares in 1978)	**2,169**	6,232
Dividend reinvestment plan	**665**	225
Balance at end of year	**(53,670)**	(56,504)
Total Shareholders' Equity	**$1,526,009**	$1,327,240

See accompanying notes

All common share amounts are after effect of 3-for-2 stock split.

Consolidated Statement of Changes in Financial Position

(Dollars in thousands)	Years Ended December 31 1979	1978*
Funds Provided		
From operations:		
Income before realized securities gains	**$ 244,556**	$ 211,387
Increase in unpaid claims and policyholders' benefits	**633,801**	643,579
Increase in unearned premiums	**114,985**	124,862
Increase in deferred acquisition costs	**(20,626)**	(29,619)
Increase in accounts receivable and other assets	**(223,097)**	(287,306)
Increase (decrease) in accounts payable, accrued expenses, and other liabilities	**(40,730)**	220,526
Other, net	**15,771**	47,245
	724,660	930,674
Proceeds from sales and maturities of investments net of taxes on realized gains	**1,458,641**	1,415,368
Proceeds (repayment) of short-term notes payable, net	**8,519**	(11,111)
Proceeds from issuance of senior notes and foreign currency notes	**20,000**	40,870
Other changes in long-term debt, net	**2,098**	9,285
Shares issued:		
Preferred	**(980)**	10,743
Common	**11,107**	5,426
Total funds provided	**$2,224,045**	$2,401,255
Funds Applied		
Cost of investments acquired	**$2,161,245**	$2,197,402
Dividends declared	**79,041**	65,882
Additions to property and equipment, net	**43,947**	30,528
Increase (decrease) in cash and short-term investments	**(60,188)**	107,443
Total funds applied	**$2,224,045**	$2,401,255

See accompanying notes

**Reclassified to reflect investment banking operations on the equity basis of accounting (see note 1).*

Notes To Consolidated Financial Statements

1. Summary of Significant Accounting Policies

A summary of the significant accounting policies used in the preparation of the consolidated financial statements is as follows:

Basis of Presentation

The financial statements contained in this report are presented in accordance with generally accepted accounting principles. The Corporation and its subsidiaries also supply financial statements to the Securities and Exchange Commission and other regulatory bodies on prescribed forms.

Principles of Consolidation

The consolidated financial statements include the accounts of all significant subsidiaries in which the percentage ownership exceeds 50%, except for the investment banking operation, which is accounted for in accordance with the equity basis of accounting (see note 2).

Other investments in 20% to 50% owned companies are also accounted for on the equity basis. Significant intercompany balances have been eliminated in consolidation.

Investments

Investments in common and preferred stocks are carried at market value. Bonds are generally carried at amortized cost. Mortgage loans and policy loans are carried at unpaid principal balances, while real estate is carried at depreciated cost. Security transactions are recorded on the trade date.

Realized securities gains and losses are reported in income, based upon the specific identification of the securities sold. Unrealized securities gains and losses net of deferred income taxes are reflected directly in shareholders' equity as a separate caption.

Deferred Acquisition Costs

Acquisition costs, including commissions, premium taxes and other costs that vary with and are directly related to the production of property, casualty, and group insurance business, are deferred and amortized over the terms of the insurance policies. Such costs related to the individual life and annuity insurance business are deferred and amortized over the premium paying periods of such policies in proportion to the anticipated premium income. Deferred acquisition costs are reviewed to determine that such amounts are recoverable.

Property and Equipment

Property and equipment are carried at depreciated cost. Cost includes interest and real estate taxes incurred during construction and other construction related items. Depreciation is calculated principally on the straight-line method using estimated useful lives ranging from 6 to 45 years for buildings and 3 to 15 years for furniture and equipment. Expenditures for equipment replacement and building improvements are capitalized. Maintenance and repairs are charged to operating expenses as incurred.

Goodwill

Goodwill arising from acquisitions subsequent to 1970 is being amortized on a straight-line basis over periods not exceeding 40 years. Goodwill arising from acquisitions made prior to 1971 is not being amortized. The operations of acquired companies are reviewed to determine that there is no permanent loss in value of the goodwill.

Unpaid Claims and Policyholders' Benefits

Unpaid claims and claim expenses are estimates of payments to be made on individual insurance claims that have been incurred and reported, and estimates of losses which have occurred but have not yet been reported. Salvage, subrogation and reinsurance recoverable are considered in such estimates.

Liabilities for future benefits to the life and annuity policyholders are computed by the net level premium method, based upon estimated future investment yields and mortality and withdrawal assumptions.

Revenue Recognition

Premiums on property, casualty, accident and health insurance, and other short-duration contracts are reported as earned on a pro-rata basis over the contract period. The portion of premiums collected and not earned at the end of the period are recorded as unearned premiums. Estimates of premiums which have been earned, but which have not been reported, are accrued. Premiums on life insurance and annuity contracts are reported as earned when due. Related benefits and expenses are associated with the premiums so that profits are recognized over the lives of the contracts.

Revenues of health care operations include billed charges for services rendered to all patients. Payments received for services rendered to patients covered by certain federal, state, and other insurance plans are generally less than billed charges. Provisions are made to reduce the charges to these patients to the estimated amount recoverable.

Income Taxes

The Corporation and its domestic subsidiaries, except certain life insurance subsidiaries, file a consolidated federal income tax return. The income tax expense of partially owned subsidiaries filing as part of the consolidated return is computed as though the companies were each filing a separate federal income tax return. Investment tax credits are applied on the flow-through method.

Deferred income taxes are provided for revenues and expenses which are included in the financial statements and tax returns in different periods. Such revenues and expenses are considered timing differences and include the deferral of insurance acquisition costs, undistributed earnings of foreign subsidiaries, policyholders' dividends, the reporting of revenues and expenses on a cash basis for tax purposes, certain portions of salvage and subrogation, premium revenues, depreciation expense, pension expense, and life insurance future policy benefits. Deferred income taxes are also provided on the net unrealized securities gains at the applicable capital gains rates in effect when the change in the unrealized securities gain is recorded.

Pension Plans

The Corporation and certain of its subsidiaries have non-contributory pension plans covering substantially all of their employees. The Corporation's policy is to fund pension costs as accrued subject to tax, actuarial, and ERISA considerations. The annual expense for the principal pension plan is equal to the normal cost under the entry age normal actuarial cost method. In the event the market value of this plan's assets is below guidelines predetermined as sufficient to maintain the plan, the indicated deficiency will be amortized over 15 years. The annual expense for the other plans is equal to the normal cost under the accrued benefit cost method. The unfunded liability of other plans is being amortized over 10 years. The aggregate pension expense charged against operating results amounted to $15,579,000 ($13,438,000 in 1978).

2. Mergers and Acquisitions

In December 1979, as a result of the merger of Blyth Eastman Dillon & Co. Incorporated (Blyth Eastman Dillon) into Paine Webber Incorporated, the Corporation exchanged its majority interest for approximately 22% interest in Paine Webber Incorporated in a transaction involving no gain or loss to the Corporation. As described in note 1, the Corporation accounts for its interest in investment banking in accordance with the equity basis of accounting. The Corporation's financial statements issued prior to the merger, which included its interest in investment banking accounted for on a consolidated basis, have been reclassified to reflect such interest on the equity basis of accounting.

The reclassification of the 1978 financial statements resulted in reductions in consolidated assets and liabilities of $3,897,212,000, revenues of $200,130,000 and expenses of $205,930,000. The reclassification had no effect on the amounts of consolidated net income, net income per share or shareholders' equity as previously reported. The Corporation's equity in the net losses of Blyth Eastman Dillon of $8,185,000 ($2,506,000 in 1978) have been included in the consoli-

dated statement of income in revenues from other diversified operations.

In connection with the merger, the Corporation acquired at market value Blyth Eastman Dillon's position in Government National Mortgage Association securities. The position was comprised of holdings and commitments to acquire approximately $1.2 billion ($700 million at January 31, 1980) of securities and commitments and options to sell similar amounts of such securities.

In December 1978, the Corporation acquired HMO International (HMO) through an exchange of stock and has accounted for the transaction as a purchase. Under the merger agreement each HMO shareholder was entitled to elect to receive either common shares or $1.90 cumulative convertible preferred shares, Series C. Although the exchange was not completed at December 31, 1978, the Corporation accounted for the exchange as if each HMO shareholder had elected to receive the preferred shares and appropriate adjustments were recorded in 1979 to reflect certain shareholders' elections to receive common shares. Had HMO been acquired on January 1, 1978, the effect of its operations on the Corporation's consolidated revenues, net income, and earnings per share would not have been material.

3. Goodwill

Goodwill aggregates $82,684,000 ($77,521,000 in 1978) of which approximately $27,600,000 was acquired before 1971 and, in management's opinion, has continuing value and is not being amortized. Goodwill of $28,902,000 ($20,390,000 in 1978) is included in investment in unconsolidated affiliates.

Normal amortization of goodwill charged to operations was $1,743,000 ($1,980,000 in 1978). In addition, as a result of a review by management, an additional amount of goodwill of $4,300,000 ($2,000,000 in 1978) was charged to operations. Goodwill acquired before 1971 of approximately $4,200,000 was written off in 1978.

4. Reinsurance Operations

In the normal course of business, the Corporation assumes and cedes reinsurance and is a member of various pools and associations. Reinsurance is assumed from numerous companies, principally on a pro-rata basis. Reinsurance is ceded on both a pro-rata and excess basis.

Reinsurance premiums assumed and included in earned premiums are approximately $662,306,000 ($621,088,000 in 1978). Premiums ceded and deducted from earned premiums are $769,765,000 ($546,516,000 in 1978). Estimated amounts recoverable from reinsurers that are related to known unpaid losses were $473,123,000 ($300,190,000 in 1978).

The Corporation has ceded reinsurance contracts to protect itself against loss events of a catastrophe nature. Such ceded premiums are approximately $6,917,000 ($6,788,000 in 1978). There were no recoveries under these contracts in either year.

5. Leases

The Corporation and its subsidiaries have operating leases principally with respect to buildings. Rental expenses amounted to $35,762,000 ($28,255,000 in 1978). Future net minimum rental payments under noncancellable operating leases are as follows: 1980-$22,386,000; 1981-$18,387,000; 1982-$14,465,000; 1983-$10,740,000; 1984-$8,399,000; all years thereafter-$34,581,000.

Capitalized leases aggregating $76,090,000 ($70,304,000 at December 31, 1978) are included in property and equipment.

Future net minimum lease payments under capitalized leases (excluding executory costs) are as follows: 1980-$13,823,000; 1981-$12,779,000; 1982-$11,294,000; 1983-$10,176,000; 1984-$10,691,000; all years thereafter-$112,499,000; amount representing interest $89,392,000; present value of net minimum lease payments $81,870,000.

6. Long-Term Debt

Long-term debt, net of current maturities, at December 31, 1979 and 1978 consisted of the following:

(Dollars in thousands)	1979	1978
Unsecured debt:		
8⅞% Senior Notes due 1997 (a)	$ 75,000	$ 75,000
10% Sterling Foreign Currency Notes due 1988 (b)	44,640	40,870
10% Subordinated Sinking Fund Debentures due 1985 to 1999	5,354	5,302
10% Senior Debentures due 1991	11,225	11,825
6% Convertible Subordinated Debentures due 1997 (Eurodollar) (c)	46,665	50,000
10¾% Senior Notes due through 1999	20,000	—
Other	21,174	22,527
Total unsecured debt	224,058	205,524
Secured debt (principally with real estate):		
4% to 9% Notes payable through 1989	7,156	5,952
4% to 10% Mortgage Notes due through 2004	63,158	60,599
Other secured obligations	40,491	36,084
Capitalized leases 4½% to 14%	69,573	74,179
Total secured debt	180,378	176,814
Total long-term debt	$404,436	$382,338

(a) On average, will be outstanding 13.7 years based upon mandatory sinking fund requirements beginning in 1983. The note agreement also provides for an optional redemption schedule commencing in 1987 and certain other covenants. The more significant covenants are certain limitations related to the disposition of assets, the incurring of indebtedness, the payment of dividends, acquisition of treasury shares, and investments in and advances to non-insurance subsidiaries. In management's opinion, the above restrictions will have no adverse effect on the payment of dividends or current business practices.

(b) Not redeemable before 1982, except in the event of certain changes affecting United States taxation.

(c) Convertible into common shares, on the basis of $32.33 per share, (which is adjusted for the 3– for– 2 stock split) subject to adjustment under certain conditions. During 1979, approximately $3,335,000 of such debentures were converted.

7. Income Taxes

The consolidated current tax provision includes foreign income taxes of $11,100,000 ($15,100,000 in 1978).

U.S. income taxes are reduced by foreign tax credits of $21,700,000 ($15,900,000 in 1978) of which $7,700,000 ($2,200,000 in 1978) are carryovers from prior years. Taxes are provided on realized securities gains at the capital gains rate of 28% in 1979 and 30% in 1978.

The effective tax rate applicable to consolidated operating income was 20.6% (28.7% in 1978). The rates differ from expected tax rates of 46% and 48% for 1979 and 1978, respectively, principally because of the 85% dividends received deduction and tax-exempt interest.

The deferred income taxes for 1979 and 1978 have been provided on the timing differences described in note 1.

8. Stock Split

On December 19, 1979, the board of directors authorized the issuance, on February 15, 1980, of one additional common share for each two shares outstanding on the close of business on January 18,1980. In 1979, additional paid-in capital has been reduced and the common shares account increased by $13,470,000 which is the amount of the par value of the estimated number of additional common shares to be issued.

All common share and per common share amounts are after giving effect to the aforementioned stock split.

9. Preferred Stock

The board of directors may authorize the issuance of one or more series of preferred shares, with dividend rates, redemption prices, conversion privileges and sinking fund requirements as determined by the board.

The $4.25 cumulative convertible preferred shares, Series A have a redemption and liquidating value of $100 per share and are convertible into common shares at a rate of 3 shares of common for each share of Series A preferred.

The $1.90 cumulative convertible preferred shares, Series C are redeemable at $25.00 per share prior to October 1, 1981 upon satisfaction of certain conditions and thereafter are redeemable only as a class. In the event of any liquidation or dissolution of the Corporation, the holders of Series C shall be entitled to receive $22.50 per share. These shares are convertible at any time at the rate of ¾ of a common share for each Series C preferred share surrendered.

10. Stock Options

The Corporation has qualified and non-qualified stock option plans (including plans assumed in the acquisition of HMO) for issuance of common shares to certain key executives of the Corporation and its subsidiaries at prices not less than 100% of the fair market value of shares on the date upon which the options are granted. As of December 31, 1979, options for 729,225 additional shares may be granted under these plans and options to purchase 248,242 common shares are outstanding and exercisable with expiration dates ranging from 1980 through 1989. Additional data with respect to options is as follows:

	1979	1978
Outstanding at January 1	294,736	324,570
Assumed from HMO	—	31,048
Granted	73,050	—
Expired or cancelled	(4,248)	(4,650)
Exercised	(88,062)	(56,232)
Outstanding at December 31	275,476	294,736
Average exercise price of outstanding options	$20.44	$17.61
Average exercise price of options exercised	$15.80	$13.01

11. Earnings Per Share

Primary earnings per common share data is based on the average number of common shares and common share equivalents outstanding after giving effect to the 3– for– 2 stock split. The convertible preferred shares and stock options are common share equivalents. There were 38,579,370 common shares and common share equivalents outstanding (37,888,500 in 1978). Fully diluted earnings per share assumes that the convertible debentures are converted into common shares at the beginning of the year. For this computation net income is increased by the interest expense on the convertible debentures, net of income tax.

12. Unrealized Securities Gains

An analysis of the consolidated net unrealized securities gains at December 31, 1979 and 1978 is as follows:

(Dollars in thousands)	1979	1978
Gross unrealized gains	$293,531	$286,680
Gross unrealized losses	29,820	32,435
	263,711	254,245
Deferred income taxes	60,044	56,624
Net unrealized gains	$203,667	$197,621

13. Shareholders' Equity and Dividend Restrictions

The Insurance Departments of various jurisdictions in which the Corporation's insurance subsidiaries are domiciled recognize shareholders' equity determined in accordance with accounting practices they prescribe or permit (statutory accounting practices). The amount of dividends which such companies can pay is related to the amount of their shareholders' equity determined in accordance with such statutory accounting practices. In this connection, the major insurance subsidiaries had $237,136,000 available at December 31, 1979 for the payment of dividends without prior regulatory approval.

A reconciliation of consolidated net income and shareholders' equity determined in accordance with statutory accounting practices and such amounts determined in conformity with generally accepted accounting principles (GAAP) is as follows:

	Net Income		Shareholders' Equity	
(Dollars in thousands)	1979	1978	1979	1978
GAAP amounts	$261,637	$213,695	$1,526,009	$1,327,240
Non-insurance	(28,438)	(31,416)	(110,079)	(139,631)
Insurance	233,199	182,279	1,415,930	1,187,609
Deferred acquisition costs	(20,626)	(29,620)	(287,031)	(266,405)
Earned but not reported premiums and salvage and subrogation	(17,380)	(12,365)	(130,664)	(113,284)
Deferred income taxes	41,478	27,148	194,941	146,264
Other, net	(10,930)	14,458	(10,687)	(5,738)
Non-admitted assets	—	—	(53,834)	(55,024)
Statutory insurance amounts	$225,741	$181,900	$1,128,655	$ 893,422

14. Foreign Operations

The Corporation and its subsidiaries incurred a foreign exchange loss of $3,408,000 ($807,000 in 1978). The summary of financial data with respect to foreign operations is as follows:

(Dollars in thousands)	1979	1978
Assets	$1,231,100	$1,057,400
Liabilities	974,300	827,200
Revenues	533,900	432,400
Operating income before income taxes	33,600	34,400

Substantially all foreign operations relate to property-casualty insurance activities.

15. Segment Reporting

The Corporation currently operates principally in three segments: property–casualty insurance, life and group insurance, and health care. Operations in property–casualty insurance include commercial and personal insurance written on a direct and reinsurance assumed basis. Operations in life and group insurance include the writing of most standard forms of life insurance; annuity (both fixed and variable) and pension policies, on both an individual and group basis; individual and group accident and health insurance, and reinsurance for individual and group lines. Operations in health care management include owning hospitals, managing hospitals for others, and providing health care services.

Financial data with respect to the segments and the major product groups for the property–casualty and the life and group segments are set forth below.

The total identifiable assets of each of the insurance segments are essentially available for the payment of claims and benefits for all product lines within the segments. Likewise, the investment income derived from property-casualty assets is not directly identifiable with specific product lines. Since the resultant assets and income reflect allocations, such amounts should not be considered as capital employed or actual investment earnings of the product groups. Net investment income allocated to commercial and personal product groups were $202,951,000 and $40,484,000 in 1979, respectively, and $159,408,000 and $35,266,000 in 1978, respectively.

(Dollars in thousands)	1979			1978		
	Revenues	Operating Income Before Income Taxes	Assets (2)	Revenues	Operating Income Before Income Taxes	Assets (2)
Property–Casualty						
Commercial	$2,297,622	$126,067	$4,011,689	$2,039,638	$133,595	$3,393,137
Personal	605,835	31,385	735,459	585,444	38,124	666,131
Other	114,871	55,950	1,130,119	87,422	37,459	1,092,717
Total	3,018,328	213,402	5,877,267	2,712,504	209,178	5,151,985
Life and Group						
Group	434,812	36,499	783,263	380,184	26,818	592,077
Other	382,882	30,561	1,631,668	363,488	29,315	1,541,271
Total	817,694	67,060	2,414,931	743,672	56,133	2,133,348
Health Care Management	553,297	41,358	467,541	397,153	28,057	422,536
Other Operations	131,948	4,656	227,683	147,620	15,819	210,376
Adjustments (1)	30,105	(18,520)	(387)	24,053	(12,800)	118,245
Consolidated	$4,551,372	$307,956	$8,987,035	$4,025,002	$296,387	$8,036,490

(1) "Adjustments" includes eliminations arising in consolidation and the accounts of the parent company (exclusive of goodwill and the amortization thereof).

(2) "Assets" reflects identifiable assets for the segments with an allocation made to product groups within the property–casualty segment and life and group segment. Identifiable assets are those assets that are used in the operations of each segment, and include appropriate inter-segment loans, advances and mortgages which are eliminated in the consolidated financial statements.

Depreciation and capital expenditures are significant only with respect to health care management. Such depreciation amounted to $16,897,000 ($14,064,000 in 1978) and capital expenditures aggregated $63,184,000 ($25,311,000 in 1978).

16. Interim Financial Information (Unaudited) Interim financial data are included on page 47.

Auditors' Report

The Board of Directors and Shareholders
INA Corporation

We have examined the accompanying consolidated balance sheets of INA Corporation at December 31, 1979 and 1978, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheets and consolidated statements of income, shareholders' equity and changes in financial position present fairly the consolidated financial position of INA Corporation at December 31, 1979 and 1978, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Philadelphia, Pennsylvania
February 29, 1980

Effects of Changing Prices (Unaudited)

The accompanying statement of income from operations and five-year summary of selected data on page 46 were prepared to reflect the effects of general inflation on INA Corporation. The data presented is based, in part, upon the requirements of Financial Accounting Standard (FAS) No. 33 entitled, "Financial Reporting and Changing Prices" issued in 1979.

The inflation adjusted data has been prepared by restating the data included in the primary (historical) financial statements for the effects of general inflation using the Urban Consumer Price Index (CPI). The inflation adjusted data has been expressed in the purchasing power of average 1979 dollars.

In determining the "Gain or Loss from Decline in Purchasing Power of Net Monetary Assets," the definition of assets and liabilities that should be classified as monetary is critical. INA disagrees with the classification of certain items set forth in FAS No. 33 and displays the information as required and also in accordance with INA's classification.

In interpreting the results displayed in these statements, the reader should be aware that, unlike an industrial company, a corporation such as INA holds significant net monetary assets and inflation primarily impacts on the purchasing power of such assets rather than income from operations. Additionally, we believe that the data can best be interpreted in terms of trend analysis rather than absolute dollar amounts.

Statement of Income from Operations
Adjusted for the Effects of General Inflation Year Ended December 31, 1979 (Unaudited)

(Dollars in millions)	As Reported in the Primary Financial Statements	Adjusted for General Inflation
Statement of Income		
Revenues	$4,551	$4,551
Operating Expenses		
Depreciation	29	40
Other	4,277	4,277
Total operating expenses	4,306	4,317
Net Operating Income	$ 245	$ 234
Loss from Decline in Purchasing Power of Net Monetary Assets		
FAS No. 33		$ (157)
INA Classification*		$ (120)

**Includes investments in common stock and property - casualty unearned premiums and deferred acquisition expenses as monetary items.*

Five Year Summary of Selected Data Adjusted for the Effects of General Inflation (Unaudited)

(Dollars in millions, except for per share data)	1975	1976	1977	1978	1979	Compound Growth Rate
Revenues						
Historic	$2,489	$2,924	$3,598	$4,025	$4,551	16.3 %
Adjusted	3,356	3,728	4,310	4,478	4,551	7.9
Net Operating Income						
Historic	61	99	165	211	245	41.6
Adjusted	81	121	196	228	234	30.4
Loss from Decline in Purchasing Power of Net Monetary Assets						
FAS No. 33	(24)	(27)	(55)	(94)	(157)	–
INA Classification	(45)	(38)	(56)	(78)	(120)	–
Net Assets						
Historic	961	1,102	1,166	1,327	1,526	12.3
Adjusted	1,303	1,376	1,355	1,465	1,637	5.9
Per Common Share*						
Net Operating Income						
Historic	1.66	2.67	4.41	5.58	6.34	39.8
Adjusted	2.20	3.26	5.23	6.01	6.07	28.9
Dividends Declared						
Historic	1.40	1.40	1.53	1.73	2.05	10.0
Adjusted	1.89	1.79	1.84	1.93	2.05	2.1
Market Price						
Historic	23.375	31.50	27.625	25.375	32.875	8.9
Adjusted	32.31	41.55	34.13	28.75	32.875	.4
Consumer Price Index						
Average for Year	161.2	170.5	181.5	195.4	217.4	7.8
End of Year	166.3	174.3	186.1	202.9	229.9	8.4

**After effect of 3-for-2 stock split.*

Interim Financial and Market Price Information (Unaudited)

(Dollars in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Consolidated Results					
1979					
Revenues[1]	$1,054,226	$1,144,313	$1,144,222	$1,208,611	$4,551,372
Net operating income	55,920	62,857	61,838	63,941	244,556
Realized securities gains (losses) net of income taxes	8,295	6,436	5,152	(2,802)	17,081
Net income	64,215	69,293	66,990	61,139	261,637
1978					
Revenues[1]	931,136	992,301	1,014,016	1,087,549	4,025,002
Net operating income	44,160	54,917	55,945	56,365	211,387
Realized securities gains (losses) net of income taxes	9,836	13,355	(11,647)	(9,236)	2,308
Net income	53,996	68,272	44,298	47,129	213,695
Per Common Share[2]					
1979					
Primary:					
Net operating income	$1.45	$1.64	$1.60	$1.65	$6.34
Realized securities gains (losses) net of income taxes	.22	.16	.13	(.07)	.44
Net income	1.67	1.80	1.73	1.58	6.78
Assuming full dilution:					
Net operating income	1.40	1.58	1.55	1.60	6.13
Realized securities gains (losses) net of income taxes	.21	.16	.12	(.07)	.42
Net income	1.61	1.74	1.67	1.53	6.55
1978					
Primary:					
Net operating income	1.18	1.45	1.47	1.48	5.58
Realized securities gains (losses) net of income taxes	.26	.35	(.31)	(.24)	.06
Net income	1.44	1.80	1.16	1.24	5.64
Assuming full dilution:					
Net operating income	1.13	1.41	1.42	1.43	5.39
Realized securities gains (losses) net of income taxes	.25	.34	(.30)	(.23)	.06
Net income	1.38	1.75	1.12	1.20	5.45
Dividends paid:					
1979	.433	.50	.50	.50	1.933
1978	.384	.433	.433	.433	1.683
Market price:					
1979: High	30⅜	31¼	33⅛	33⅞	33⅞
Low	25½	28¼	30⅛	28¼	25½
Close	30	31⅛	30⅞	32⅞	32⅞
1978: High	27½	28⅝	31⅞	30⅝	31⅞
Low	22⅝	25⅜	27¼	24	22⅝
Close	26	27⅜	29⅝	25⅜	25⅜

(1) *Reclassified to reflect investment banking operations on the equity basis of accounting.*
(2) *After effect of 3-for-2 stock split.*

Corporate Officers

Chairman and Chief
Executive Officer
Ralph S. Saul

Senior Executive Vice Presidents
Richard M. Burdge
John R. Cox

Executive Vice Presidents
John K. Armstrong
Andrew M. Rouse
James W. Walker, Jr.

Senior Vice Presidents
Herbert P. Evert
Allan Z. Loren
John G. Riddell
Bruce Z. Shaeffer
James L. Walker (1)

Vice Presidents
Michael K. Conn (2)
Stephen J. Drotter
Charles F. Hale (3)
Paul B. Lukens (4)
Robert L. Robinson (5)

Senior International Consultant
Minos A. Zombanakis

(1) Chief Financial Officer
(2) Treasurer
(3) General Auditor
(4) Controller
(5) Secretary

Board of Directors

Gerald W. Blakeley, Jr. 2, 3, 6
Chairman
Cabot, Cabot & Forbes, Incorporated

Michel F. E. Caplain
Chairman and Chief Executive Officer
Compagnie Financière de Suez

William T. Coleman, Jr. 4, 5, 6
Senior Partner
O'Melveny & Myers

Charles D. Dickey, Jr. 4, 5, 6
Chairman and Chief Executive Officer
Scott Paper Company

William P. Drake 1, 4, 5
Chairman of the Executive Committee
Pennwalt Corporation

Stafford R. Grady 2, 4, 5
Chairman and Chief Executive Officer
Lloyds Bank California

John T. Gurash 1, 3, 5
Chairman
CertainTeed Corporation

Donald E. Meads 2, 3, 4, 6
Chairman and President
Carver Associates, Inc.

Howard C. Petersen 1, 2, 3
Director
Fidelcor, Inc.
The Fidelity Bank

Ralph S. Saul 1, 3, 6
Chairman and
Chief Executive Officer
INA Corporation

William E. Simon 1, 3, 5
Senior Consultant
Blyth Eastman Paine Webber Incorporated

Ezra K. Zilkha 1, 3, 5
President
Zilkha & Sons, Inc.

Committees:

1. Executive Committee
2. Audit Committee
3. Investment Committee
4. Organization & Compensation Committee
5. Nominating Committee
6. Public Issues Committee

The annual meeting of the shareholders of INA Corporation will be held at the company's headquarters, 1600 Arch Street, Philadelphia, PA on Wednesday, April 23, 1980 at 9 a.m.

Proxies and proxy statements are being mailed to shareholders of record as of March 4, 1980.

Dividend Reinvestment Service
A Dividend Reinvestment and Stock Purchase Plan is offered to holders of INA Corporation Common Shares and $1.90 Cumulative Convertible Preferred Shares, Series C. The service offers the opportunity to automatically reinvest all cash dividends and to make additional cash purchases in any amount from $10 to $1,000 monthly.

Form 10-K
Most of the information in this report, along with additional data concerning the company, is included in INA Corporation's annual report on Form 10-K, which will be filed with the Securities and Exchange Commission on or before March 31, 1980. If you wish a copy of INA Corporation's Form 10-K, please write:
Shareholder Services
INA Corporation
1600 Arch Street
Philadelphia, PA 19101.

Stock Transfer Agent
INA Corporation
Shareholder Services
1600 Arch Street
Philadelphia, PA 19101

Registrar
Girard Bank
One Girard Plaza
Philadelphia, PA 19101

Common Stock Listing
New York Stock Exchange
Philadelphia Stock Exchange
Pacific Stock Exchange

Common Stock Unlisted Trading Privileges
Boston Stock Exchange
Cincinnati Stock Exchange
Detroit Stock Exchange
Midwest Stock Exchange

Preferred Stock, Series C, Listing
New York Stock Exchange

For investor information on INA Corporation, contact:
William L. Hartman
Director of Financial Relations
INA Corporation
1600 Arch Street
Philadelphia, PA 19101
(215) 241-2908

INA Corporation, 1600 Arch Street, Philadelphia, PA 19101.